



STARWARD INDUSTRIES

THE TRANSLATION OF MANAGEMENT BOARD'S REPORT

Starward Industries Spółka Akcyjna

For the financial year covering the period from January 1, 2020 to December 31, 2020.

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1. Basic data

Company:	Starward Industries Spółka Akcyjna
Country of registration:	Poland
Registered office:	ul. Przemysłowa 12, 30-701 Krakow, Poland
E-mail address:	info@starward.industries
Website:	www.starward.industries
Court of registry:	District Court for Kraków-Śródmieście in Kraków, 11 th Commercial Division of the National Court Register
Registration number (KRS):	0000750305
Business Register Number (REGON):	381277255
Tax ID (NIP):	6772437711

Starward Industries SA ("Company", "Starward Industries") was established on the basis of a notarial deed of 10 September 2018 (Journal No. 13664/2018) drawn up by lawyer notary Marcin Satora.

By decision of 27 September 2018 (file reference number KR.XI NS-REJ.KRS/28215/18/135) issued by the District Court for Kraków-Śródmieście in Kraków, the Company was registered in the Register of Entrepreneurs of the National Court Register under number 0000750305. The Company was established for an indefinite term.

Please note that the following content of this document is not the Management's Board Report under the provisions of Annex 3 to the Alternative Trading System Regulations "Current and periodic information provided in the alternative trading system on the NewConnect market", but only translation of the Management's Board Report and has not been published in accordance to aforementioned regulations. Only the Management's Board Report in Polish language was published in the manner specified in the aforementioned regulations and is the only binding document providing the information specified in these regulations.

2. Governing bodies

As on 31 December 2020 and as on the date of this report, the Management Board was composed of:

Marek Markuszewski - Chief Executive Officer

Dawid Sękowski - Member of the Management Board

Daniel Betke - Member of the Management Board

Mariusz Antkiewicz - Member of the Management Board

As on 31 December 2020 and as on the date of this report, the Supervisory Board was composed of:

Kamil Klinowski - Chairman of the Supervisory Board

Marcin Górecki - Member of the Supervisory Board

Przemysław Marmul - Member of the Supervisory Board

Katarzyna Pióro - Member of the Supervisory Board

Michał Siennicki - Member of the Supervisory Board, representative of individual investors

On 10 November 2020, Dawid Sękowski resigned from his post as Member of the Supervisory Board, effective as of the same day. The decision was motivated by his wish to apply for the post of Member of the Management Board.

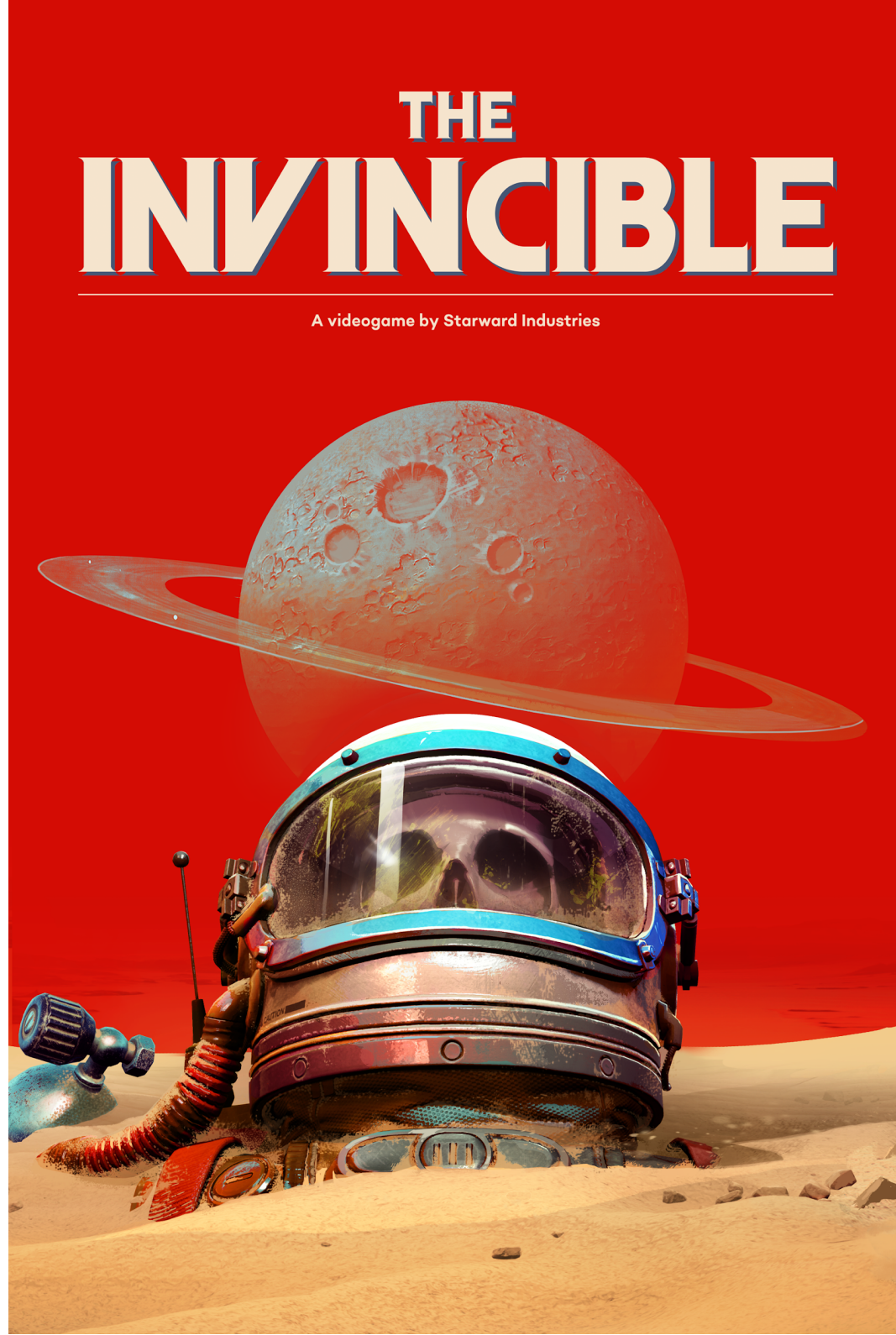
On 11 November 2020, after Dawid Sękowski's resignation as Member of the Supervisory Board, the remaining members wishing to keep the legally required minimum size of the Supervisory Board exercised its powers under the Articles of Association to appoint Michał Siennicki as Member of the Supervisory Board. On 17 November 2020, the Supervisory Board of the Company appointed Dawid Sękowski as a Member of the Management Board.

3. Description of business

Starward Industries is an independent developer of **AA+** games designed for personal computers as well as PlayStation, Xbox and Nintendo Switch game consoles, created by a team with many years' experience working for companies such as CD Projekt Red, Reality Pump, Techland, and led by Marek Markuszewski – Chief Executive Officer and originator of the gamedev studio.

Marek Markuszewski gained experience working for the Krakow branch of CD Projekt RED, which he also co-founded. After resigning as Senior Producer, he dedicated himself to a new project which formed the core of Starward Industries SA. Within a year, he recruited talented and experienced gamedev persons, purchased a license to adapt an outstanding Sci-Fi novel and created a detailed business plan for the project. In June 2018, he met with a group of individual investors who provided the first round of financing and started working together to develop the studio concept, resulting in a company with serious ambitions and long-term operational and financial plans. The crowning of the work took place on **10 September 2018** when a joint-stock company under the current name was set up in Kraków and registered in the National Court Register on 27 September 2018. In October the same year, it began operating as a full team. At the beginning of 2020, Starward Industries was preparing to debut on the NewConnect an alternative trading system, and on 19 August 2020 the company was listed at NewConnect. This event completed the process of **going public**.

As on date of this report, the Company is in the process of creating a **role-playing game** based on the novel "The Invincible" by **Stanisław Lem** – the famous Polish writer, whose books have sold in tens of millions of copies around the world. Starward Industries





has acquired an exclusive license to produce a video game based on the novel "The Invincible" by Stanisław Lem, valid until 5 October 2023. The Company intends to release the first game well before the license term expires.

The company is a pioneer in the computer adaptation of Stanisław Lem's works. At the same time, it does not duplicate any existing ideas related to the writer's work, but instead creates its original vision. Starward Industries is aware that the goal it has set itself is ambitious, therefore it regularly consults its creative decisions with

experts in Lem's work. By the date of this report, the Company had announced its debut production, which was met with enthusiastic reception internationally. At the same time, the Company is trying to keep up-to-date with the latest trends by participating in conferences and shows, specialist forums and analyzing newly emerging games. Starward Industries also puts a lot of value on the professional development of team members, keeping informed of new emerging technologies and trends.

4. Significant events in the completed financial year

January 2020:

- Registration of the series H Pre-IPO issue completed with the court raising the company's share capital.

February 2020:

- Successfully completed audit by the Kancelaria Magnet company at the end of the first financial year. The management board also presented an activity report. An authorized advisor contract was signed with Navigator Capital and a market maker contract was signed with PKO BP.
- The next (fourth) stage of video game production work was accepted **(MS-04)**.

March 2020:

- The company received Stock Issuer status granted by the National Depository for Securities.

April 2020:

- The company completed the fifth stage of video game production work **(MS-05)**, closing the pre-production stage. The team designed and implemented all the key mechanics needed to implement the gameplay and introduced

benchmark graphics of the environment, objects and characters to create the draft of the final version of the game.

- On 29 April, the Company filed a set of applications for admission to trading into the NewConnect market operated by the Warsaw Stock Exchange, covering 73,005 series H shares.

May 2020:

- The sixth stage of the video game production **(MS-06) was started**. This stage closed with an initial fragment of the target game sequence rendered into a 60-minute showpiece. The opening fragment of the game (prologue) introduces the main and side characters as well as the basic storyline.

July 2020:

- The Company updated the Information Document and extended the application for admission to trading in the NewConnect an alternative trading system and dematerialization of 114,711 series G shares in compliance with Warsaw Stock Exchange (WSE) requirements on marketing Starward Industries shares in alternative trading system NewConnect market.
- On 14 July 2020 the production stage **(MS-07)** was completed in which the interior of one of the ships with scenes appeared.

August 2020:

- Starward Industries received a positive decision from the WSE Management Board in the form of a resolution introducing series G and series H shares into the alternative trading system on the NewConnect market. Subsequently, the WSE Management Board, at the request of the Company, adopted a resolution setting the first listing date to 19 August 2020. At the same time, Starward Industries was given the abbreviated name “STARWARD” and the designation “STA”. On 19 August 2020, Starward Industries debuted on NewConnect, with 187,716 shares introduced into trading (including 73,005 series H shares and 114,711 series G shares).
- The production stage **(MS-08) was completed**. The game was extended to include a “city” location built by robots and a cloud-based nanobot management system, with the additional option of interacting with people from the planet.

September 2020:

- The first official game reveal. The company revealed the title of its debut production, the first game screenshots and soundtrack fragments. An official game card on Steam was made available.
- On 16 September 2020, the Ordinary General Meeting of the Company was held, representing 50.25% of the share capital.

In September **2020**, the Company started its cooperation with Michał Cholewa (an award-winning sci-fi writer) as a reviewer and fiction consultant.

October 2020:

- The campaign announcing the game ‘The Invincible’ prepared for the Company won an award for “Best Campaign for a New Venture” in the European Agency Awards 2020 competition.
- The company’s creative team completed the production stage **(MS-09)**. The main character model was finished and the first facial animations were brought to a completion. A large area with a field base was added.

November 2020:

- The company received from Dawid Sękowski the resignation from Deputy Chair of the Supervisory Board, who quit his position in order to apply for a seat on the Management Board at Starward Industries.
- The Supervisory Board appointed Michał Siennicki, a representative of individual investors, to be a Member of the Supervisory Board.



December 2020:

- The tenth stage of the video game production (**MS-10**) was **accepted**. All the heads of the main characters, as well as mining and geological machines were ready. A level with a large ship was added.

New employments:

In **2020**, the team acquired four new persons, closing the recruitment planned for that year. The team was joined people with the following functions

- Community Manager
- QA Analyst
- Level Designer
- Programmer

Attendance at fairs, conferences and other industry events:

- participation in the 3rd and 5th editions of the GPW Innovation Day conference,
- participation in the 5th edition of the 'Gaming on the Stock Exchange' conference

Attendance at Individual Investors' events:

- participation in an investor chat hosted by the StockWatch website.

5. Significant events after the end of the financial year

January 2021:

- The Company's development team completed production work on the next stage of the video game **(MS-11)**. One of the effects of the stage was to work out the game's basic story structure with all the options and endings. An interactive scenario summary was developed to test options choices during gameplay.
- The company signed a licensing agreement to sell high-quality large-format printouts with promotional images from 'The Invincible' on **Astrography.com**.

February 2021:

- **Interactive scenario testing and analysis** by Game Analytics (recording of option choices in all sessions) followed by a questionnaire filled out by a selected group of consultants.
- The National Depository for Securities adopted a resolution to conditionally register series A, B, C, D, E and F shares within 3 days from the time of receipt of notice of a designation of the first day of trading at NewConnect an alternative trading system, operated by the Warsaw Stock Exchange.
- The Company's Management Board adopted a resolution to increase the share capital as part of the authorized capital and make the subscription offer for I series shares. The shares subscription offer was addressed to one entity, namely the Acion Master Fund operated by Acion Partners Limited, a

foreign investment institution supported by KKR, a global investment company and pioneer in private equity.

- On **24 February 2021** the company completed the private subscription offering dedicated to a foreign institutional investor. The fund managed by Acion Partners subscribed to the entire new issue worth PLN 2.7 million. The parties signed a share subscription agreement and the payment was credited to the Starward Industries banking account. The company announced that it considered allocating the raised funds to the following areas:
 - increasing the marketing budget of the game
 - increasing the game development budget
 - completing conceptual work on the next game before the premiere of 'The Invincible'
 - securing copyright or licenses for new works to be adapted.
- At the turn of 2020 and 2021, a **preliminary version of the marketing strategy** was developed internally and then assessed by an independent expert during a formal meeting of the Supervisory Board. Currently, this document is being extended and refined. Preparations for the implementation of the key elements of the campaign are also underway.
- The next production milestone **(MS-12)** was reached. At this stage, the team had finished creating all the key areas of the game (levels) and key objects (robots, ships, vehicles).

March 2021:

- **On 9 March 2021**, the Warsaw Stock Exchange management board adopted a resolution designating 11 March 2021 as the first day of trading in NewConnect an alternative trading system for the Company's ordinary bearer shares of the A, B, C, D, E and F series.
- **11 March 2021** marked the first day of trading at NewConnect an alternative trading system of series A, B, C, D, E and F ordinary bearer shares.

The company started cooperating with a group of people in the following positions:

- Writer
- Marketing Manager
- Environment Artist
- QA Analyst
- Operating Officer

In addition, the company signed an agreement to start cooperating with an additional person in the following position:

- Market maker

6. Expected development of the Company

The company has adopted a strategy of building virtual worlds under umbrella brands, which means that outlays on promotion will help support not just one, but a whole series of games under a common brand. In promoting and marketing its first game, the Company seeks to use the communication bridge based on the image of Stanisław Lem as a world-renowned author of science fiction novels. This brand opens the door to both the existing fandom of the novel and opinion leaders around the world, as well as a range of specialist media/cultural, artistic and scientific institutions. As a result, the Company will build marketing communication using feedback and recommendations from both professionals and influencers, supported by a substantial in-cash marketing budget to ensure maximum reach when the first game is released. In order to find its own place on the market in the long term, the Company focused on unique values that it has built into its business and product strategy:

- creating virtual worlds that go beyond a single product and are based on compelling, engaging gameplay experiences

- high intellectual value rooted in culture represented here specifically by a unique vision, exclusively licensed, of excellent writer Stanisław Lem's literary work.

The Company's long-term plan is to produce next video games in thematic series, located in virtual worlds created and developed. Such a strategy is to ensure the stability of revenues and continuity of operations. Thanks to this, outlays on promotion and marketing campaigns will support the sale of not just one, but a whole series of games under a common brand. Also, the created characters will have a chance to become established in other sectors of culture and entertainment over time.

In the near future, the Company plans to add new people to the development team to support the production processes. Additionally, there are plans to increase the scope of external orders by promotional, marketing and public relations materials and services.

7. Major achievements in research and development

In the reporting period, the Company did not engage in research and development works.

8. Shareholders

The table below presents the shareholding structure as of the balance sheet date, with an indication of shareholders holding at least 5% of votes at the Annual General Meeting, as well as members of the Management Board and Supervisory Board.

Data related to Shareholders' Structure of Starward Industries SA are presented according to the best knowledge of the Company, based on the information provided by shareholders, and may include transactions that did not entail reporting obligations.



NO.	SHAREHOLDER	SHARES (NO.)	SHARES (%)	VOTES (NO.)	VOTES (%)
1	Marek Markuszewski *	380 002	20.56%	380 002	20.56%
2	Kamil Klinowski **	124 772	6.75%	124 772	6.75%
3	Marcin Przasnyski	119 787	6.48%	119 787	6.48%
4	Chiswick Creative Ventures Ltd.	101 007	5.47%	101 007	5.47%
5	Sebastian Spłuszka	100 000	5.41%	100,000	5.41%
6	Daniel Betke *	100 000	5.41%	100 000	5.41%
7	David Sękowski *	84 701	4.58%	84 701	4.58%
8	Mariusz Antkiewicz *	50 000	2.71%	50 000	2.71%
9	Katarzyna Pióro	47 125	2.55%	47 125	2.55%
10	Przemysław Marmul **	6 005	0.32%	6 005	0.32%
11	Michał Siennicki **	3 000	0.16%	3 000	0.16%
12	Other shareholders <5%	731 601	39.60%	731 601	39.60%
	TOTAL	1 848 000	100.00%	1 848 00	100.00%

* Management Board / ** Supervisory Board

After the registration of 27,995 I series shares, the total number of the Company's shares will increase to 1,875,995 and the above percentages will change accordingly.

9. Information on lock-up agreements

To the best knowledge of the Management Board's on the date of the Report, the vast majority of the existing shareholders of the Company concluded agreements to limit the sale of a total of 1,767,722 Company shares (series A, B, C, D, E, F, G), representing 95.66% of the share capital and in the total number of votes at the Annual General Meeting (the so-called "Lock-up Agreement"). As of date of this report 1,585,511 Company shares are still covered by the Lock-up Agreement, representing 85.80% of the share capital and the total number of votes at the Annual General Meeting.

The lock-up agreements are concluded from the date of conclusion to the expiry of the relevant periods counted from the date of the first listing day of the Company's shares on the NewConnect market (i.e. from 19 August 2020) or the official launch of the Company's first game entitled "The Invincible" ("The Game"). The first of the currently applicable lock-ups expire on 19 May 2021 (series C and D). The expiry of the last lock-ups (series B and F) will be possible after the reaching the relevant dates after the global premiere of the game "The Invincible".

10. Current and projected financial situation

Starward Industries raised capital by issuing Company shares in the amount that covers its financial requirements related to the production of the first video game. The Management Board intends to protect the funds held by investing a part of the capital in Polish State Treasury bonds and corporate bonds of companies with State Treasury shareholding. The Supervisory Board adopted resolutions No. 2/09/01/2020 on 9 January 2020 and No. 3/09/11/2020 on 9 November 2020, in which it agreed to do so.

As of 31 December 2020, the Company's balance sheet sum amounts to PLN 7,049,921.67, including PLN 6,566,453.48 in equity.

The net loss in the reporting period amounted to PLN 1,133,805.72. The reported result includes deferred income tax and reflects operating activities that generate costs for game production, office equipment and maintenance, subcontracting services, costs related to share issue services and remuneration of employees and associates in the total amount of PLN 2,593,312.79. On the other hand, the Company generated an increase in the amount of PLN 1,405,416.82 on the inventories side.

The reported accounting loss is in line with the Company's budget projections and is covered by the game's production plan.

The total expenditure on the production of the studio's first game "The Invincible" by the end of the reporting period was disclosed in the amount of PLN 3,002,192.78 under assets in the item "Inventories".

Additional financial security for the Company is provided by the capital raised from the issue of series I shares (PLN 2,715,515.00), which may be used for the further development of the Company, including the manner indicated in point 5 of this report.

After starting the sales of the game, the Company expects to significantly increase its revenues, which in its opinion will positively affect the value of the Company and will enable its further development.

ASSETS (PLN)	AS OF 31 December 2020	AS OF 31 December 2019
Fixed assets	158 136.81	121,440.82
Assets	6,891,784.86	5,163,695.36
Inventories	3,002 192.78	1,596,775.96
Short-term receivables	169,905.76	146 789.08
Short-term investments	3 687 957.39	3 383 253.45
Short-term prepayments and accruals	31,728.93	36,876.87
Total	7,049,921.67	5,285,136.18

LIABILITIES (PLN)	AS OF 31 December 2020	AS OF 31 DECEMBER 2019
Equity capital	6,566,453.48	4,700,814.20
Liabilities and provisions for liabilities	483,468.19	584 321.98
Provisions for liabilities	402 649.83	375,868.00
Long-term liabilities	0.00	0.00
Current liabilities	80,818.36	208 453.98
Prepayments and deferrals	0.00	0.00
Total	7,049,921.67	5,285,136.18

11. Own shares, branches, financial instruments

As of the date of this report, Starward Industries did not hold any own shares or acquire any own shares during the reporting period. The company has no branches or financial instruments.

12. Employment information

As of the end of 2020, the Company employed 11 people in terms of full time equivalents within the meaning of the Polish Labour Code. At the same time, Starward Industries cooperates on a permanent basis with 13 people who provide services to the Company under civil law contracts.

13. Risk factors and description of potential dangers

13.1. Main risks identified by the Company

The key risk related to Starward Industries operations is the production of the first video game at a level that is unsatisfactory for the market and consequently, generating insufficient revenues from game sales. The quality of the produced game depends on the team involvement, which may, for many reasons, may be too low to meet the goals, e.g. due to competing job offers, illness, accidents, delays in delivery. The management board has taken appropriate measures to ensure the stability of the team's work, in particular by adopting a model of share ownership by all team members, which translates into joint success and thus improved commitment compared to workers who would not have shares in the Company's ownership. The sales success is additionally related to the selected publishing model, a successful marketing campaign (which carries the risk of negative reception of the retro-futuristic style), as well as the possible

emergence of competitive products. Sales revenues are also at risk due to the foreign exchange rate fluctuations and the instability of digital distribution platforms.

Starward Industries is currently focusing all its efforts on one product, the success of which depends to a large extent on the Company's further development. The Management Board is aware of the risks associated with such a model of operation, and at the same time considers it appropriate and the surest way of generating substantial profits from its operations. For its part, the Management Board is making every effort to reduce business risk and increase the probability of success, while exercising due diligence.

13.2. Risk factors related to the Company's market environment

The risk related to competitors in the gaming industry

Competition in the computer games market is global. Game developers usually avoid direct competition, as they usually produce games for different audiences, for different publishers, or for various hardware platforms. However, the Company recognizes the risk of a quick concentration of risk in the hypothetical event of a takeover of one or more development studios by a significant producer and a quick start of production of a game similar to the one planned by the Company in order to release it earlier, with a much larger budget. This could potentially limit the demand for the Company's product. In principle, there are competitive computer games on the market similar to the products published by the Company. A large number of competitors have been operating on the market longer and have a greater potential in the production and promotion of games than the Company. There is a very large group of game developers on the market, which use the same distribution channels as the Company. A competitive market requires working to continuously improve product quality, marketing and PR activities, as well as searching for new market niches and game themes that could attract a wide audience. New products are constantly appearing on the market, which means that there is a risk of declining interest in some of the Company's products in favour of competitors' products.

The risk related to the competitive environment

The company operates in a highly competitive environment and is under pressure from:

- suppliers, who are talented game developers: programmers, graphic designers, designers, etc., who regularly receive interesting job offers from competitive studios locally and abroad,
- recipients, understood as end customers who – beyond premiere time slots – tend to generally buy games on sales,
- new market players: new game producers appear all the time, supported both by VC funds and benefiting from various subsidies,
- substitutes products such as other games, games for other platforms, and products from other branches of entertainment.

In order to find its own place on the market that could be held in the long term, the Company focuses on unique values that it has built into its business and product strategy:

- creating virtual worlds that go beyond a single product and are based on compelling, engaging gameplay experiences,
- high intellectual value embedded in culture, which in the case of the first game is the presentation of an original, author's vision based on an exclusive license for a literary work of a recognizable writer - Stanisław Lem.

To the best of our knowledge, there is no other game with a similar profile, i.e. based on single-player gameplay, with a strong storyline, set on an alien planet and using retro-futuristic graphics, but things may change.

The risk related to the gaming market boom

The global gaming market is characterized by high growth dynamics. This comes from technological development, macroeconomic factors as well as the global popularization of games as a form of spending leisure time. On the other hand, it is burdened with a high risk of volatility and unpredictability, and it cannot be ruled out that the trend will slow down, and the industry itself will develop slower than it is now, or even collapse. The mitigating factor of the risk is the geographical diversification of the Company's product distribution. As a result, the occurrence of unfavourable local or regional phenomena may only have an insignificant impact on the Company's performance. The risk is further limited by our position on the market. Our customers see our products as relatively low-cost compared to more complex, more expensive forms of entertainment. As a result, the economic downturn may have a smaller impact on the sale of games in the mid-price segment than the average across the entertainment market. It should be remembered that while the Company has no control over these factors, they may adversely affect sales and consequently the Company's financial performance.

Risk related to suppliers of technologies used in the production of games

The possibility of using a given technology depends on having a license from its creators (usually licenses are obtained for a specific

Risk related to the structure of revenues

The company will generate revenue mostly from the sale of digital copies of the first game, and in the future, of subsequent games, as it tries to maintain a balance between the best possible sales result of the first game and reaching the widest possible audience. The company will maximize the product life cycle by releasing game add-ons (DLC) and by applying a reasonable discount and promotion policy after the release period.

The Company's revenues will be closely tied to the success of the first game, with no possibility of compensation with any other sources. This may also mean that for the purpose of the production of the next game, the Company will have to obtain additional, external financing. Due to the specific nature of digital distribution, the direct source of the Company's revenues will be entities managing game sales platforms on individual markets and hardware platforms. Revenues from a very large number of end users will go to the Company through a small number of platform operators, which means that revenues from a single recipient may account for more than 10% of sales in a given period. The loss of one of such recipients may result in a significant short-term income loss that is hard to replace from other sources. The situations described in this section may have a significant adverse impact on the development prospects, performance and the financial condition of the Company.

product or series of products). In addition to the need for monitoring market changes, following trends and the changing demand in the selection of technologies, there is a risk of negotiation difficulties or technical problems related to the flaws of specific solutions that cannot be discovered in the early stages of game production. Risk is

minimized by using in the game production process the most tried and tested solutions available on the market in the form of flexible engines such as Unreal Engine (Epic Games game engine). The use of standardized engines also allows for rational management of the developed assets and mechanics and for transferring them between projects. As a result, the projects are relatively easy to localize on new platforms. However, there is the risk of having to regularly update the engine and make corrections to the finished product.

Risk related to the dependence of the distribution of the Company's products on several closed platforms

The company will distribute its products mainly in digital form. As a result, the Company will be able to obtain a faster return on production outlays, without incurring marginal distribution costs other than broker's commissions. It will also use leading sales outlets for key platforms:

The risk related to the change in the distribution and sale model of games

The company addresses its video game offer to audiences all over the world. Computer games are increasingly sold through electronic distribution channels, but many customers still prefer to visit a store and have a boxed copy of the game. In the first case, producers of game consoles force sales through a specific authorized digital distributors (e.g. PlayStation Network for games dedicated to PlayStation or Xbox Live for console games from Microsoft). On the other hand, in the second option, additional expenditure on the release and storage of physical game media is necessary.

- personal computers (Steam, Epic Store, GOG),
- Microsoft Xbox (Microsoft Store),
- Sony PlayStation (Playstation Store),
- Nintendo Switch (Nintendo Game Store).

Each of these sales outlets has in theory the right to refuse to distribute any named games without justification. If this happened, the Company's product sales would take a dive, with the financial result severely affected. In practice, the most common reasons for refusing distribution are copyright infringement, controversial content, or grossly low quality of the product. The Management Board believes that all of these risk factors are negligible and is convinced that we will provide products of very high quality. Also, it will independently ensure that the content and form of the game are in line with the rules, regulations and established practice of each platform.

Until the release of the Company's first game, there may be a significant change in the key game distribution channels mentioned above. This may be related to two known trends at the moment:

- introducing a subscription model - recipients do not pay for specific games, but for access to a multi-game platform.
- streaming of games - recipients do not install games on their devices, these are run on external servers, and only the image is sent to the recipients.

It is difficult to predict exactly what form new sales models will take, when they will gain a significant share in the market, what role they will play in relation to the currently known models and sales channels, what conditions they will entail for game producers and

what additional financial outlays they will require in order to adapt products accordingly at the time of the Company's game release. The risk cannot be ruled out that the distribution channel chosen by the Company for a given game will turn out to be less effective than planned, or that its use will be associated with higher costs or higher expenditure on promotion than initially assumed.

In each of the described variants, there is a risk that the cash flow directed to the Company will decrease. Over time, other potentially unfavourable trends may also emerge. The company is not able to estimate the likelihood of their occurrence, nor how it might affect financial performance. Nevertheless, having highly rated, well-known products based on recognized IP, the Company will have the bargaining power to help reduce this risk.

Risk related to game viewing

The company notices an emerging trend in game consumption of watching gameplay online on YouTube or Twitch. This is especially true for single-player role-playing games, such as the Company's first game. There is a risk that the Company's game will be viewed in this way, which may result in the end user deciding not to purchase it in the end, in this way reducing sales of Company product.

In order to mitigate the risk, from the very beginning of work on the game, the Company designs a non-linear, individualized plot structure. When watching a one-time playthrough of the game, it will be clearly visible that the recipient loses some of the content, i.e. the story and adventure. There is therefore a chance that the popularity of the game on video services will translate into increased sales from users looking for non-linear gameplay.

Risk related to illegal distribution

Games are products that are often distributed illegally without the consent and knowledge of the producer and publisher. Illegal distribution reduces the revenues of authorized distributors and game producers. As opposed to traditional distribution channels, electronic channels through which games are distributed to individual hardware platforms have appropriate safeguards applied by console producers. Illegal distribution of the Company's products may result in a lower level of the Company's sales revenues, which will consequently bring worse-than-expected financial results. In order to reduce the risk of illegal distribution, the Company may, in particular, take the following actions:

- work solely or mainly with digital platforms that hinder the duplication of the purchased copy,
- send frequent automatic updates to legal buyers,
- hire a professional anti-piracy company to protect products by monitoring the Internet and removing illegal copies,
- embed a monitoring mechanism to estimate the scale of illegal distribution
- build close social media relations with fans of the products to create a reciprocity effect.

Additionally, as part of its marketing strategy, the Company intends to monitor the pirate sphere of the Internet and develop mechanisms converting potential users of illegal copies into legal purchasers through – for example – special discounts.

The risk of failure of the Company's development strategy

There is a risk that as a result of factors beyond the Company's control, such as the emergence of competitors, failure to meet customer preferences or failure by contractors to meet their contractual obligations, difficulties may arise in executing the adopted strategy. The company operates in a highly volatile and unpredictable market. However, the Company may find it difficult or even impossible to achieve its goals and development strategy due to factors beyond its control, especially ones of a legal, economic or social nature. It cannot be ruled out that as a result of changes in the external environment, the Company will have to adjust or alter its goals and development strategy. A similar situation may take place if the costs of implementing the development strategy exceed the planned expenditures, e.g. due to the need to hire additional employees, a change in the shape or scope of the planned production, economic transformations leading to a significant increase in operating costs, or failures and unforeseen events resulting in the need for new devices.

The risk of the game's failure to achieve market success

The computer games market is characterized by limited predictability. Due to the short time horizon remaining until the release of the Company's first game and the related uncertainty as to its final quality and potential interest from players, there is a risk that the game will fail to thrive on the market for reasons that the Company cannot predict. Such a situation may adversely affect the financial result of the Company. This risk is inherent in the current operations of the Company.

The risk of potential failures of IT resources and data loss

The company's activity is based on the functioning of complex IT systems connected to the Internet. As a result of failures or errors in the technical infrastructure, production interruptions may occur, which may disrupt the Company's current operations. There is also a risk of data loss or theft or leakage.

In order to reduce this risk, the Company protects project data in an automated backup process inside the studio and on external servers in the pCloud service with the highest level of security, which has so far been 100% effective in data protection and archiving. In addition, the Company takes care to ensure the proper maintenance and modernization of IT systems. New updates and technological solutions improving the operation of servers and systems are monitored and introduced on an ongoing basis.

Risk related to the loss of management and key associates

The success of the Company depends to a large extent on the knowledge, experience and level of motivation of the team. The company has entered into cooperation with a group of game developers with many years of experience and considerable achievements. Their skills and knowledge cover the key areas necessary to implement the Company's plans: technological knowledge, skills in designing mechanics, developing the plot layer, directing scenes and character animations, creating three-dimensional models of the environment and objects, visual design, production management. The Company does not exclude

the possibility of voluntary departure of current associates or, in justified cases, termination of cooperation on the Company's initiative. Due to the nature of the gaming industry, which is characterized by a shortage of high-quality specialists, finding other collaborators may be time-consuming. The loss of any of the key employees may be associated with production delays, a reduction in the quality of the game or an increase in production costs, and as a consequence may have an impact on the planned release of the game. The risk-limiting factor is the fact that all key persons are shareholders of the Company. Future employees with key roles will be included in the incentive programme. An additional element limiting the risk is the high prestige of working with the Company's products, as well as the creative freedom associated with working in a small team and the opportunity for development.

The risk related to the possible deterioration of the image of the Company

The Company's image is strongly influenced by the opinions of users, mainly those published through specialized game review websites. The evaluation is most often focused on the quality of the game, availability on a given platform or device, availability at points of sale or the Internet and, above all, price. A good brand image among players translates into correspondingly higher revenues from the sale of products. Placing unattractive products on the market that do not meet the tastes and expectations of players may lead to unfavourable reviews, opinions and comments to the detriment of the Company's overall image. The loss of player trust may result in a

decline in the market position and deterioration of financial results, and in the future fuel the increase in expenditure on the promotion of new products in order to rebuild trust among users and minimize the chances of such negative events.

The risk related to the infringement of intellectual property rights

In connection with the activities conducted by the Company, there is a risk that third parties may possess certain intellectual property rights to solutions used by the Company. In its activities, the company aims to avoid a situation in which it would in any way infringe third party intellectual property rights. However, it cannot be ruled out that third parties may claim a breach of their intellectual rights to the games, no matter if such allegations are true. In the event of unfair third-party charges of intellectual property infringement, the Company will consider litigation. There is a risk that a potential dispute might result in a court ruling that requires the Company to pay penalties and damages to third parties. This would harm both the Company's image and its financial situation. Under the applicable regulations, an effective transfer of copyright requires that all fields of exploitations are enumerated, as a transfer 'on all fields of exploitation' is barred. In the context of the rapid progress of technology and the emergence of new fields of exploitation, there is a risk that the Company will use the work in fields of exploitation beyond those specified in the contract. This may result in the need to pay additional remuneration to the authors.

Risk related to the civil law contracts concluded by the Company in the context of copyright

By establishing cooperation with individual employees, the Company concludes mainly civil law contracts, i.e. contracts for the provision of services and contracts for specific work. Agreements concluded by the Company contain appropriate clauses concerning not only the method of operation, but also transfer of proprietary copyrights to the works performed for the Company, or provisions enforcing confidentiality with regard to all information made available to the contractor and not made public by the Company. The Company's intention is to have copyrights to all produced games in every aspect, which makes the Company independent of development teams, while at the same time building the internal value of the enterprise. At the same time, having copyright gives more leeway in project management.

Company monitors the emerging fields of exploitation, making efforts to ensure that the contracts performed cover all areas of key importance for the Company.

Risks associated with the SARS-CoV-2 virus pandemic or other epidemics

The Company recognizes that due to the worldwide pandemic of the SARS-CoV-2 virus (causing the COVID-19 disease), there is a risk that it is difficult for both investors and the Company to make precise business assumptions, as the duration of such a risk is unpredictable. Therefore, the short and long-term effects of the SARS-CoV-2 virus

pandemic, its impact on the production process, game marketing and consumer preferences, or the scope of funds allocated globally by consumers for entertainment, including video games, are also unclear. Nevertheless, due to the fact that the Company has introduced appropriate protective measures and has not yet identified any significant obstacles to functioning in connection with the pandemic and as the pandemic has had no impact on the video games market, the Company considers the risk to be minor.

13.3. Financial risk factors

Liquidity risk

As of the date of this report, the Company does not generate any sales revenues and does not receive any other cash inflows from operating activities. The appearance of the first sales revenues depends on the commencement of sales of the Company's first game entitled "*The Invincible*." Until then, the Company's activities focused on the release of the game will only generate costs, which theoretically, in the event of a significant postponement of the release date of "*The Invincible*", could translate into difficulties in the current settlement of liabilities. It should be emphasized that as on 31 December 2020, the Company had cash in the amount of PLN 3,687,957.39, which would satisfy the Company's current cash needs at least until the sale of the first game.

Nevertheless, it should be emphasized that a delay in the implementation of the planned premiere may result in a shift in sales revenues and at the same time require additional, often unforeseen costs, which may result in the loss of financial liquidity.

Risk of foreign exchange rate volatility

The company's activity will be export-oriented. The Company incurs its operating costs mostly in PLN, while the Management Board expects the vast majority of its revenues to be in USD and EUR. Investors should take into account the fact that the Company does not use hedging against currency risk. The Polish zloty will remain the basic and reporting currency. The Company intends to reduce the foreign exchange risk by applying natural hedging adjusted to the plan of financial flows. For this reason, the Company's results will be exposed to exchange rate fluctuations. This risk applies in particular to the PLN/USD, EUR exchange rate.

If necessary, the Company will also consider the use of forward contracts to hedge the value of deferred payments of significant amounts. However, it will still be exposed to the risk of long-term erosion of the foreign exchange rate of the above-mentioned major currencies to the zloty.

14. Corporate governance statement.

The Management Board declares that the Company applies most of the corporate governance rules contained in the Appendix to the Resolution of the Management Board of the Warsaw Stock Exchange No. 293/2010 of 31 March 2010 on amending the document "Best Practices of NewConnect Listed Companies", a detailed list of which has been indicated in the document which, in accordance with § 5 sec. 6.3 of Appendix 3 to the Alternative Trading System Regulations, forms part of the Company's annual report for 2020.

Kraków, 19 March 2021