Solid Clouds hf

Financial Statements 2024*

*These Financial Statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

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Statement and Endorsement by the Board of Directors and CEO

Solid Clouds hf was founded in 2013. Its purpose is the production and marketing of multiplayer computer games.

These Financial Statements have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union and the additional requirements of the Annual Accounts Act No. 3/2006. In accordance with IFRS, the Company has capitalized its development cost related to the development of computer games and its technical platform.

Changes regarding the Board and key employees
At the 2024 Annual General Meeting, Eggert Árni Gíslason, a current board member, was elected Chairman of the Board. Additionally, Davíð Gunnarsson, also a current board member, was appointed Vice Chairman of the Board.

Andrea Olsen joined the board at the 2024 Annual General Meeting. She has extensive experience as a corporate lawyer, including at LOGOS legal services, and is currently the Managing Director of Frigus ehf., a holding company. She also serves on several other boards on behalf of Frigus ehf.

Skúli Skúlason joined the board at the 2024 Annual General Meeting. He has extensive experience as an investor and board member in numerous companies. He is currently the Managing Director of Express ehf.

Ingólfur Ævarsson joined the board at the 2024 Annual General Meeting as an alternate member. He has held key roles in the gaming industry, including at CCP hf. and 1939 Games ehf. He is currently the CEO of the game studio Porcelain Fortress ehf.

Operations and financial position
Net loss for the year 2024 amounted to ISK 404.5 million (loss 2023: ISK 83.1 million). Total assets amounted to ISK 1,174.7 million at year-end 2024 (2023: ISK 1,217.7 million) and stockholders' equity stood at lSK 1,072.8 million at the same time (2023: ISK 1,175.1 million). The Company had an average of 20 employees during the year 2024, compared with 21 the year before.

The change in the Company's performance in 2024 compared to 2023 is mainly explained by increased revenues, higher marketing costs, increased amortization of development costs with the capitalization for the year, and the expensing of deferred tax assets — see further details in Note 10.

In February 2024, Solid Clouds hf issued new share capital in a private and public offering amounting to ISK 147.6 million at nominal value, with the total proceeds amounting to ISK 295.2 million.

Solid Clouds hf's cash balance at year-end 2024 amounted to ISK 14.0 million. The Company completed the issuance of a convertible bond amounting to ISK 175.0 million in February 2025, but part of it, ISK 80.5 million, was used to repay bond loans to related parties. In addition, Solid Clouds hf expects to receive a refund of ISK 135.4 million from Rannís for research and development costs in early November. Solid Clouds hf has been working since November 2024 to raise additional capital that is planned to last the Company through 2025.

Direct advertising is a key factor in the Company's revenue generation, as it enables targeted, measurable outcomes and allows for relatively reliable forecasting of future revenue development. Therefore, advertising expenses are not merely a cost item but creates an intangible asset that is not capitalized in the Financial Statements, in accordance with IFRS standards. The Company spent ISK 134.2 million on advertising in 2024. Revenues generated from these ads amounted to ISK 99.2 million in 2024, and revenues over the coming years from 2024 ads are estimated at ISK 88 million. The total projected return from 2024 advertising spend is therefore ISK 187.2 million in revenue over coming years.

In April 2024, Solid Clouds hf significantly increased advertising for Starborne Frontiers, and the PC version of the game was released. Later in the year, the game launched on Steam, the world's largest gaming platform. In November, the Imperium expansion for Starborne Frontiers was released.

Statement by the Board of Director's and CEO, continued:

The Company achieved significant growth in 2024. Revenue increased by 1,264% from January to December. Monthly Active Users (MAU) grew by 344.3%, and Daily Active Users (DAU) by 394% for the same period. The Company's key performance metric is Return on Ad Spend (ROAS). ROAS for Q1 2024 was around 84% on a 360- day basis, and the Company estimates it will be around 150% for Q4 2024 on the same basis. Long term goal for the Company is for return on Ad Spend to reach around 400% in about five years.

The main objective of Solid Clouds hf in 2025 is to increase advertising while maintaining acceptable return on advertisement. In this context, the Company is preparing to begin advertising on new ad platforms such as Applovin, Mintegral, and Ironsource. Furthermore, the Company aims to continue internationalizing the game by translating it into additional languages during the first half of the year.

Risk factors

Solid Clouds relies on direct marketing to acquire users and generate revenue. The Company must be able to advertise with a given budget while maintaining acceptable advertising profitability in order to achieve positive operating results. Additionally, marketing efforts need to be financed.

Shareholders

The number of shareholders at the end of 2024 stood at 1,608, having been 1,581 at the beginning of the year and thus increased by 27. The following were the ten largest shareholders at year-end 2024 with comparison with same shareholders at year-end 2023:

	2023	2022
Festa - lífeyrissjóður	8,1%	1,1%
Stefán Gunnarsson	6,8%	10,4%
Birta lífeyrissjóður	6,0%	0,0%
Stefán Þór Björnsson	4,5%	3,8%
Kjölur fjárfestingarfélag ehf	3,7%	6,6%
Eggert Árni Gíslason	3,3%	1,6%
Fea ehf	3,0%	0,0%
Sigurður Arnljótsson	2,6%	4,1%
Guðmundur Ingi Jónsson	2,5%	0,5%
Þorlákur Traustason	2,4%	0,2%
Other shareholders (1.598, 2023: 1.571)	57,1%	71,7%

Share capital

The Company's registered share capital amounted to ISK 331.8 million at the end of the fiscal year 2024. Each share is ISK 1 nominal value. All shares are in the same category and enjoy the same rights. Further information can be found in Note 12.

Governance

The Board of Directors of Solid Clouds hf prioritizes maintaining good governance and following the guidelines on corporate governance issued by the Iceland Chamber of Commerce, Nasdaq OMX Iceland hf, and the Confederation of Icelandic Employees. The board has established rules of procedure defining clearly its area of authority and that of the CEO; these include provisions covering meeting procedure, the qualifications of board members, confidentiality, disclosure of information by the CEO to the board, and other matters. The gender ratio in the Company's board is two women (40%) to three men (60%).

The majority of the board members are considered to be independent of the Company, its day-to-day management, and its major shareholders. Detailed information on Board members can be found on the Company's website, www.solidclouds.com.

Discrimination based on gender, origin, color, disability, sexuality, gender identity, race, culture, religion or other status is not tolerated at Solid Clouds hf.

Statement by the Board of Directors and the CEO
To the best of our knowledge, the Company's Financial Statements give a true and fair view of its operating results for the financial year ended 31 December 2024, its assets, liabilities and financial position on 31 December 2024 and changes in cash during the financial year, in accordance with international accounting standards as confirmed by the European Union.

In addition, it is our opinion that the Financial Statements and the report of the Board of Directors and the CEO contain a clear overview of developments and outcomes in the Company's operations and its position, and provide a description of the main risk factors and uncertainties that the Company faces.

The Board of Directors and the CEO of Solid Clouds hf hereby confirm the Financial Statements for the year ended 31 December 2024 by their signatures. The Board of Directors and the CEO intend to propose at the Company's Annual General Meeting that it approves the Financial Statements.

Seltjarnarnes, 28th of March 2025

Stefán Gunnarsson, Managing Director

Eggert Árni Gíslason, Chairman of the Board

Davíð Gunnarsson, VC of the Board

Andrea Olsen, Board Member

Skúli Skúlason, Board Member

Svanhvít Friðriksdóttir, Board Member

Independent Auditor's Report

To the Shareholders and the Board of Directors of Solid Clouds hf

Opinion
We have audited the Financial Statements of Solid Clouds hf for the year ended December 31, 2024 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows for the year then ended, and the notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of Solid Clouds hf as at 31 December 2024, its financial performance and its cash flows for the year 2024 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Solid Clouds hf in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going concern
Without modifying our opinion, we draw attention to Note 2e in the Financial Statements, which states that at the end of the year, the Company's cash amounted to ISK 14.0 million, and current liabilities exceeded current assets by ISK 66.8 million. As noted in the notes, this indicates that there is uncertainty which may affect the Company's ability to continue as a going concern.

Other information
The Board of Directors and the CEO are responsible for the other information. The other information comprises the Statement and Endorsement by the Board of Directors and CEO. Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation as stated below.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying Statement and Endorsement by the Board of Directors and CEO includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the Financial Statements.

Responsibilities of the Board of Directors and the CEO for the Financial Statements
The Board of Directors and the CEO are responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Board of Directors and the CEO are responsible for assessing Solid Clouds hf'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 the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- 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 is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 Solid Clouds hf's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting 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 auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's 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 in a manner that achieves fair presentation.

We communicate with the Board of Directors 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.

Kópavogur, 28th of March 2025

Deloitte ehf

Signý Magnúsdóttir
State Authorized Public Accountant

Statement of Comprehensive Income for the year 2024

	Notes	2024	2023
Operating income			
Game revenue	5	99.207	20.468
Collection costs for game revenue		(17.176)	0
		82.030	20.468
Operating expenses			
Salaries and related expenditures	6	19.925	15.619
Development cost	14	27.911	4.604
Advertisement cost		134.245	33.854
Operating expenses	15	32.787	19.401
		214.869	73.478
Operating loss before depreciation and financial inc. and expenses		(132.839)	(53.011)
Depreciation of developement costs and right-of use assets	8,9	(114.620)	(93.246)
Operating loss before financial income and expenses and income tax		(247.459)	(146.257)
Financial income and (expenses)			
Interest revenues		6.492	9.304
Interest expenses		(2.751)	(1.354)
Currency exchange difference		(1.008)	(318)
		2.732	7.632
Operating loss before income tax		(244.727)	(138.626)
Income tax	10	(159.736)	55.549
Net loss and comprehensive income for the year		(404.462)	(83.077)

The notes on pages 12-24 are an integral part of these Financial Statements.

Amounts are in ISK thousands

Statement of Financial Position, December 31, 2024

Assets

	Notes	31.12.2024	31.12.2023
Assets			
Development cost	8	1.134.825	995.148
Right-of use assets	9	4.741	4.472
Income tax asset	10	0	159.736
Non-current assets		1.139.567	1.159.356
Receivables		16.871	8.535
Other receivables		4.200	5.799
Cash and cash equivalents		14.035	44.003
Current assets		35.105	58.337
Total assets		1.174.672	1.217.693

Equity and liabilities

	Notes	31.12.2024	31.12.2023
Equity			
Share capital		331.800	184.199
Share premium		129.437	198.808
Restricted equity		1.134.825	995.148
Share based payments		20.861	13.944
Accumulated deficit		(544.139)	(216.973)
Total stockholders equity	12	1.072.783	1.175.126
Liabilities			
Lease liabilities	9	4.767	4.901
Bond loans to related parties	18	43.333	0
Accounts payable		13.500	6.557
Other payables	11	40.289	31.109
Current liabilities		101.889	42.567
Total liabilities		101.889	42.567
Total equity and liabilities		1.174.672	1.217.693

The notes on pages 12-24 are an integral part of these Financial Statements.

Amounts are in ISK thousands

Statement of Changes in Equity December 31, 2024

	Share capital	Share premium	Restricted equity	Share-based payments	Accumul. deficit	Total Equity
Changes in 2023						
Equity December 31, 2022	184.199	420.496	861.253	11.918	(221.688)	1.256.177
Accumulated deficit moved to share premium		(221.688)			221.688	0
Comprh. loss for the year					(83.077)	(83.077)
Restricted equity			133.896		(133.896)	0
Share based payments				2.026		2.026
Equity December 31, 2023	184.199	198.808	995.148	13.944	(216.973)	1.175.126
Changes in 2024						
Equity December 31, 2023	184.199	198.808	995.148	13.944	(216.973)	1.175.126
Accumulated deficit moved to share premium		(216.973)			216.973	0
Paid in capital during the year ..	147.601	147.601				295.202
Comprh. loss for the year					(404.462)	(404.462)
Restricted equity			139.677		(139.677)	0
Share based payments				6.917		6.917
Equity December 31, 2024	331.800	129.436	1.134.825	20.861	(544.139)	1.072.783

See further information about equity in note 11.

The notes on pages 12-24 are an integral part of these Financial Statements.

Solid Clouds hf - Financial statements 2024 - 10 - Amounts are in ISK thousands

Statement of Cash Flows for the year 2024

	Notes	2024	2023
Operating activities			
Operating loss before financial income and expenses and income tax		(247.459)	(146.257)
Adjustments to reconcile results from operation to operating activities:			
Interest for the year on a bond loan from related parties		133	0
Share based payments, change	6	6.917	2.026
Depreciation of developement costs and right-of-use assets	9	114.620	93.246
Working capital used in operating activities		(125.790)	(50.984)
Operating assets, changes		(6.736)	(2.401)
Operating liabilities, changes		16.123	7.316
Cash used in operating activities		(116.403)	(46.069)
Interest revenues received		6.492	9.304
Interest expenses paid		(2.751)	(1.354)
Net cash used in operating activities		(112.662)	(38.119)
Investment activities			
Capitalized developement cost	8	(380.409)	(360.743)
Grants that lower capitalized developement cost	8	131.284	138.606
Investment activities		(249.125)	(222.137)
Financing activities			
Paid-in share captial, net of cost of public offering		295.202	0
Bond loans to related parties		43.200	0
Instalments of lease liabilities		(5.575)	(5.540)
Financing activities		332.826	(5.540)
Decrease of cash and cash equivalents		(28.960)	(265.796)
Cash and cash equivalents at beginning of year		44.003	310.118
Translation difference of cash and cash equivalents		(1.008)	(318)
Cash and cash equivalents at end of year		14.035	44.003

The notes on pages 12-24 are an integral part of these Financial Statements.

Amounts are in ISK thousands

Notes to the Financial Statements

1. **Reporting entity**
Solid Clouds hf (the "Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is Eiðistorg 17, Seltjarnarnes, Iceland. The main purpose of the Company is information technology, software development and creation and marketing of computer games.

2. **Basis of preparation**

a. *Statement of compliance with International Financial Reporting Standards*

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Financial Statements are also in accordance with the Act on Annual Accounts and the Regulation on the Presentation and Content of Annual Accounts.

The Financial Statements were approved by the Board of Directors of Solid Clouds hf on March, 28th, 2025.

b. *Basis of measurement*

The Financial Statements are prepared on historical cost basis exempt from the stock option agreements which are valued in accordance with the requirements of IFRS 2.

c. *Presentation and functional currency*

The Financial Statements are presented in Icelandic krona (ISK), which is the Company's functional currency. All financial information presented in ISK has been rounded to the nearest thousand except when otherwise indicated.

d. *Use of estimates and judgements*

The preparation of Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The determination of fair value is based on preconditions, which are dependent on the judgment of management on future events. Actual results can be different from these estimates. Management's assessment has the greatest impact in deciding on the capitalization of development cost and in determining the capitalization of income tax asset. See note 1g and Note 8 for more information regarding the capitalization of development costs, and see Note 10 regarding the capitalization of income tax asset.

e. *Going concern*

At the end of 2024, the company's cash balance amounted to 14.0 million ISK, and current liabilities exceeded current assets by approximately 67 million ISK. The company completed the issuance of a 175.0 million ISK convertible bond in February 2025. Of this, 80.5 million ISK was used to repay shareholder loans that were outstanding at the end of 2024 and additional shareholder loans provided in January 2025.

The company plans to finance its ongoing operations with the available cash, the additional funding obtained in February 2025, and its revenue generation and further financing plans for the year. There is material uncertainty regarding the company's projected future cash flow if plans do not materialise. Management has been working on the company's financing and has made an agreement with a financial institution for involvement in financing in the form of supervision and advisory services. If such financing does not materialise, the company will need both temporary shareholder financing and to implement cost-saving measures in operations to ensure sufficient cash to meet its obligations.

The company's financial statements are presented on a going concern basis.

3. **Significant accounting policies**

a. *Foreign currencies*

Transactions in foreign currencies are translated to Icelandic krona at the foreign exchange rate at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated to Icelandic krona at the foreign exchange rate at the reporting date.

b. *Revenue recognition*

The Company has income from the sale of virtual goods in the computer games that the Company has released. Revenue from virtual goods is recorded when players have used the products in question.

c. *Government grants*

Government grants related to development costs have been entered to reduce capitalized development costs to offset them against the costs they are intended to cover.

A grant from Rannís for research and development costs for the year 2024 will be paid in October or November 2025.

d. *Employee benefits*

Employees' salaries are capitalized when their work has been performed and are due to the development of capitalizable projects, but are charged if the conditions for capitalization are not met. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company pays contributions to employees on an independent basis for contributions related to pension funds. The company bears no responsibility for the obligations of the funds.

See note 12d regarding stock option agreements but the Company has entered into stock option agreements with employees so that their interests coincide as closely as possible with the interests of shareholders.

e. *Interest income*

Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

f. *Income tax*

Income tax is recognized in the Income Statement except when it relates to items that are recognized directly in equity, in which case the income tax is recognized in equity.

Deferred income tax is recognized for temporary differences between the carrying amounts of assets and liabilities in the Financial Statements, on the one hand, and their tax value, on the other.

The calculation of deferred tax is based on the tax rate that is expected to take effect when temporary differences will be reversed, based on current law on the settlement date. Calculated income tax assets and income tax liabilities are equalized when there is a legal right to equalize income tax for payment and tax assets.

Calculated income tax asset are only recognized to the extent that it is considered probable that taxable profits will be available in the future against which the asset can be utilized. The calculated income tax asset is valued on each settlement date and reduced to the extent that it is considered probable that it will not be utilized.

Notes continuing:

g. *Intangible assets*

Intangible assets are only capitalized when it is probable that the economic benefits associated with the asset will benefit the Company and the cost value of the asset can be estimated reliably. The Company's intangible assets are video games in development and the Company's technology base, but the Company has divided the capitalized development costs down to the technology base and the Sovereign Space and Frontiers games. The assets are recognized at cost less depreciation, which is recognized systematically over their estimated useful life, which is different for underlying assets. Estimated useful lives and depreciation methods are reevaluated at the end of each year.

Research costs are charged when incurred. Development costs are capitalized only if all of the following conditions are met:

- that the Company can complete the development of the intangible asset so that it is ready for use or in a salable condition,
- that the Company intends to complete the development of the property and use or sell it,
- that the Company demonstrates its ability to sell the property,
- that the Company demonstrates that the property will generate income in the future,
- that the Company has sufficient technology and resources to complete development and sales,
- that the Company has the capacity to estimate development expenses reliably.

Capitalization of development costs is only when all of the above conditions are met, otherwise it is expensed when incur.

It is the conclusion of the management that all the above conditions are met.

h. *Right-of use assets and lease liabilities*

At commencement of a lease contract a lessee recognizes a right-of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The right-of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of use asset is posted among fixed assets in the Financial Statements and are subsequently depreciated using the straight line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's internal rate of return.

i. *Financial assets*

The Company's financial assets are trade receivables and other receivables. The Company intends to keep the receivables until they are due. Contractual payments on due dates consist only of installments of principal and interests where appropriate. Information about expected loan losses on financial assets can be found in Note 13b.

The Company delistes financial assets when the contractual right to future cash flows from the financial asset no longer exists or when the risks and benefits of the financial asset are transferred to another party.

j. *Financial liabilities and equity instruments*
An equity instrument is any type of agreement that involves the remaining interests in the Company's assets after all liabilities have been deducted. Equity instruments issued by the Company are recorded at cost less the direct cost of issuing them.

Financial liabilities are estimated at amortized cost based on effective interest rates. The Company only writes off financial liabilities when the obligation due to them no longer exists. Gains or losses due to deregistration are recognized in the Income Statement.

4. **New accounting standards and interpretations of those that have not been implemented**

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Financial Statements.

- IAS 1 Presentation of Financial Statements	Classification of Liabilities as Current or Non-current
- IAS 1 Presentation of Financial Statements	Non-current Liabilities with Covenants
- IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures	Supplier Finance Arrangements
- IFRS 16 Leases	Lease Liability in a Sale and Leaseback

The adoption of the amendments stated above has not had any material impact on the disclosures or on the amounts reported in these Financial Statements.

The Company has not early adopted new standards or amendments to IFRSs that have been issued and are permitted for early adoption. The following amendments are effective from 1 January 2025:

- IAS 21 The Effects of Changes in Foreign Exchange Rates	Lack of Exchangeability

The impact of IFRS 18, which comes into effect on 1 January 2027, has not been fully assessed, but otherwise management of the Company do not expect that the adoption of the amended Standard listed above or other issued new standards and amendments scheduled that become effective in subsequent periods will have a material impact on the Financial Statements of the Company in future periods.

Notes continuing:

5. **Geographical distribution of the Company's operating income**

The following table shows the distribution of revenue from the sale of the game Sovereign Space in different countries in the year 2024 compared to 2023, with 15 biggest each year:

	2024		2023	
	Sale in ISK thousands	Percentage of sale	Sale in ISK thousands	Percentage of sale
United States of America (USA)	50.022	50,42%	11.765	51,84%
United Kingdom	12.237	12,33%	2.242	9,88%
Germany	10.143	10,22%	100	0,44%
Australia	3.203	3,23%	1.509	6,65%
Canada	3.119	3,14%	1.687	7,43%
Sverige	1.560	1,57%	200	0,88%
South-Korea	1.199	1,21%	12	0,05%
Netherlands	1.647	1,66%	98	0,43%
Romania	1.290	1,30%	466	2,05%
Iceland	973	0,98%	88	0,39%
France	956	0,96%	511	2,25%
Estonia	672	0,68%	85	0,37%
Spain	666	0,67%	81	0,36%
Belgium	635	0,64%	111	0,49%
Polland	617	0,62%	979	4,31%
47 / 39 other countries	10.270	10,35%	2.763	12,17%
Game revenue	99.207	100,00%	22.697	100,00%

6. **Salaries and salary related expenditures**

Salaries and salary related expenditures are specified as follows:

	2024	2023
Salaries	219.438	211.231
Cost of share based payments	6.917	2.026
Salary related expenditures	40.734	47.878
Salaries and salary related expenditures in the Income Statement	267.089	261.135
Capitalized salaries and salary related expenditures as development cost	(247.164)	(245.516)
Expensed salaries and salary related expenditures	19.925	15.619
Average number of full time equivalent employees	20	21

The total salaries of the Board, and managing directors (2024: two employees, eight board members, 2023: two employees, eight board members) amounted to a total of ISK 42.1 million in the year 2024 (2023: ISK 40.5 million). Pension fund payments amounted to ISK 4.5 million during the year 2024 (2023: ISK 4.7 million).

7. **Financial income and (expenses)**

Financial income and (expenses) are specified as follows:

	2024	2023
Interest income	6.492	9.304
Interest expenses	(2.751)	(1.354)
Currency exchange difference	(1.008)	(318)
Financial income and (expenses) total	2.732	7.632

Notes continuing:

8. **Intangible assets**

The Company's development costs are based on the Company's production of a multiplayer video game technology framework that can be used to make multiplayer games for the international market. The production of such games is generally complex, time consuming and expensive. As stated in Note 3g, management estimates that the capitalization of development costs meet all IAS 38 capitalization requirements.

Development costs are amortized over the estimated life of each development project. The lifespan is estimated from 5 years to 20 years. See more about amortization of development costs in explanation 3g.

Development cost and depreciation are specified as follows:	2024	2023
Book value 1.1.	995.148	861.253
Capitalized developement cost, see note 15	380.409	360.743
Grants that lower capitalized developement cost, see note 15	(131.284)	(138.606)
Depreciation of developement cost	(109.447)	(88.241)
Book value 31.12.	1.134.825	995.148
Depreciation time of developement cost	5-20 years	5-20 years

9. **Leases**

The Balance Sheet shows the following amounts relating to leases:

Right-of use assets	2024	2023
Balance at the beginning of the year	4.472	10.706
Change in right-of-use assets during the year	5.442	(1.229)
Depreciation of right-of-use assets during the year	(5.173)	(5.005)
Balance at the end of the year	4.741	4.472

Lease liabilities		
Current	4.767	4.901
Total lease liabilities	4.767	4.901

The lease agreement for the Company's office premises expires at the end of 2025. The lessor has indicated that the Company can extend the lease if it wishes.

The Income Statement shows the following amounts relating to leases:

Depreciation of right-of-use assets	5.173	5.005
Interest expense	712	766
Total expense in the Income Statement for leases	5.885	5.771

The Company paid ISK 6.3 million in rent in the year 2024 (2023: ISK 7.1 million).

Depreciation in the Income Statement is specified as follows:

Depreciation of right-of-use assets, see above	5.173	5.005
Depreciation of developement costs, see note 8	109.447	88.241
Total depreciation expense in the Income Statement	114.620	93.246

Amounts are in ISK thousands

Notes continuing:

10. Income tax asset

Income tax asset is specified as follows:

	2023	2022
Income tax asset at the beginning of the year	159.736	104.187
Calculated income tax for the year	75.085	55.549
Write-down of calculated income tax assets	(234.821)	0
Income tax asset at the end of the year	0	159.736

Calculated income tax asset is divided to the following items:

Accumulated tax loss	461.630	358.745
Write-down of calculated income tax assets	(234.821)	0
Developement cost	(226.965)	(199.030)
Currency exchange difference	156	21
Income tax asset at the end of the year	0	159.736

The tax loss at the end of 2024, which may be carried forward according to Icelandic tax law, amounts to ISK 2,308.2 million. Accumulated tax losses that are not used against profits within ten years of their formation are canceled. Carry forward tax loss at year-end 2023 is usable as follows:

Tax loss for the year 2015, useable until the year 2025	52.527
Tax loss for the year 2016, useable until the year 2026	68.585
Tax loss for the year 2017, useable until the year 2027	106.974
Tax loss for the year 2018, useable until the year 2028	109.360
Tax loss for the year 2019, useable until the year 2029	160.170
Tax loss for the year 2020, useable until the year 2030	198.255
Tax loss for the year 2021, useable until the year 2031	307.902
Tax loss for the year 2022, useable until the year 2032	377.226
Tax loss for the year 2023, useable until the year 2033	411.758
Tax loss for the year 2024, useable until the year 2034	515.395
Carry-forward tax loss at year-end 2024	2.308.151

A deferred tax asset due to tax loss carryforwards has been capitalized in recent years. There is uncertainty about the utilization of tax losses from 2015 to 2016. For reasons of prudence, the deferred tax asset is written down until a profit is generated from the Company's operations.

11. Other payables

Other payables is specified as follows:

	31.12.2024	31.12.2023
Unpaid salary and salary related expenses	40.229	31.050
Government charges	21	21
Liabilities to related parties	39	39
Other payables 31.12.	40.289	31.109

Amounts are in ISK thousands

12. **Equity**

a. *Share capital*

The Company's share capital, according to its Article of Association amounts to ISK 331.8 million (2023: ISK 184.2 million). One vote is attached to each ISK one share in the Company.

b. *Share premium*

The Company's share premium shows the premium paid for paid-in share capital during the year.

c. *Restricted equity*

According to Icelandic laws and regulations, companies that capitalize development cost shall recognize the same amount as a separate item in equity which is not permitted to allocate dividends from. That item shall be settled in proportion to the amount of annual depreciation of capitalized development costs. The item should be dissolved if the asset is sold, discontinued or fully depreciated.

d. *Stock option agreement*

The Company's board of directors approved a new stock option plan for the Company's key employees and contractors in 2021. The stock option plan is for four years, where employees and contractors have the right to buy a pre-defined number of shares annually based on the allocated number. Over a four-year period, the employee is authorized to purchase 17% of the allocated number on January 1, 2022, 21% of the allocated number on January 1, 2023 and January 1, 2024, and 20% of the allocated number on January 1, 2025. The purchase price is 10 per share. The person must be employed continuously by the Company until the end of each accrual period.

The options do not carry the right to dividends or voting rights. The purchase options are divided into four parts that will be redeemable over a period of four years. The accrual period of the first part is one year, the accrual period of the second part is two years, etc. Each part is charged during its vesting period, and therefore the total charge due to stock options is highest in the first year, but then gradually decreases until all four vesting periods are completed.

The fair value of stock option contracts is assessed on the date of the contract and charged to salaries and salary-related costs in the period in which vesting takes place. The transfer will be made to a separate item among equity. The fair value of stock options is estimated using the Black-Scholes method. The valuation uses assumptions about the share price on the valuation date, the price in stock options, the expected volatility of the Company's share price, the validity period of the contracts and the risk-free interest rate.

The following table shows an analysis of stock options in the year 2024:	Number of shares	Average redempt. price
Stock option agreements at the beginning of 2024	9.653.823	10,00
Expired stock options during the year 2024	(725.000)	10,00
Stock option agreements at the end of 2024	8.928.823	10,00

A total of 20 employees and contractors have stock option agreements with the Company at the end of 2024.

The following table shows an analysis of stock options in the year 2023:	Number of shares	Average redempt. price
Stock option agreements at the beginning of 2023	10.008.665	5,80
Granted stock options during the year 2023	224.800	10,00
Expired stock options during the year 2023	(579.642)	0,47
Stock option agreements at the end of 2023	9.653.823	5,80

Amounts are in ISK thousands

13. **Financial risk management**

a. *Overview*

The Company is exposed to various types of risk that are associated with the financial instruments and markets in which it operates. The most important types of financial risk to which the Company is exposed from are:

* credit risk, see b.
* liquidity risk, see c.
* market risk (currency risk, interest rate risk), see d.
* operational risk, see e.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management. The Board has commended the Managing Director's day to day developing and monitoring of the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Furthermore, the goal is to manage risk effectively and risk management is based on the risk being in accordance with the Company's willingness to take risks, thus contributing to increased stability and long-term profitability. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

b. *Credit risk*

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company does not lend to its customers. The Company's outstanding trade receivables at the end of 2024 and 2023 are credit card receivables. The Company's cash is stored in accounts with Arion Bank and PayPal.

Largest possible loss on financial assets

The Company's largest possible loss due to financial assets is their book value, which was as follows on the reporting date:

Trade and other receivables are specified as follows:	**31.12.2024**	**31.12.2023**
Trade and other receivables	19.477	12.395
Cash and cash equivalents	14.035	44.003
Largest possible loss on financial assets	33.512	56.398

Amounts are in ISK thousands

Impairment on receivables
The age of trade receivables and its impairment was as follows at the end of the year:

	Nominal value		Impairment	
	31.12.2024	31.12.2023	31.12.2024	31.12.2023
Not yet due	19.477	12.395	0	0
Total trade receivables	19.477	12.395	0	0

Management believes that the credit risk on financial assets is insignificant, as these are credit card receivables that are currently being collected and bank deposits that carry an insignificant credit risk. It is therefore the opinion of the management that the effect of credit risk as a whole is insignificant for the Financial Statements and no write-down is recognized due to credit risk of financial assets.

c. *Liquidity risk*
Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Company’s approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities as they fall due and thus avoid damaging the Company's reputation.

The breakdown by contractual maturity, including expected interest payments, are as follows:

December 31, 2024	Book value	Contractual cash flow	Within one year	1-5 years	Over 5 years
Lease liabilities	4.767	4.851	4.851	0	0
Accounts payables	13.500	13.500	13.500	0	0
Related party liabilities	39	39	39	0	0
Bond loans to rel. part.	43.333	44.687	44.687	0	
Other payables	40.251	40.251	40.251	0	0
Total financial liabilities ...	101.889	103.327	103.327	0	0

December 31, 2023	Book value	Contractual cash flow	Within one year	1-5 years	Over 5 years
Lease liabilities	4.900	5.189	5.189	4.901	0
Accounts payables	6.556	6.556	6.556	0	0
Related party liabilities	39	39	39	0	0
Other payables	31.071	31.071	31.071	0	0
Total financial liabilities ...	42.566	42.855	42.855	4.901	0

Amounts are in ISK thousands

d. *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company is exposed to currency risk due to purchases and borrowings in currencies other than ISK. The currencies that mainly create exchange rate risk are the euro (EUR) and the USD.

The Company does not specifically hedge against exchange rate risk through forward contracts. Management regularly reviews the Company's currency risk with the aim of limiting it as much as possible.

The breakdown of assets and liabilities in foreign currency is as follows:

December 31, 2024	EUR	USD	Total
Receivables	7.736	8.816	16.552
Cash and cash equivalents	626	173	799
Trade payables	(5.359)	(4.769)	(10.128)
Net currency risk	3.003	4.220	7.223

December 31, 2023	EUR	USD	Total
Receivables	1.484	154	1.638
Cash and cash equivalents	558	1.870	2.428
Trade payables	(1.304)	0	(1.304)
Net currency risk	738	2.023	2.762

The exchange rates of the major currencies during the years 2024 and 2023 were as follows:

	Average exchange rate		Period-end exchange rate	
	Year 2024	Year 2023	31.12.2024	31.12.2023
EUR	149,31	149,14	143,90	150,50
USD	137,93	137,98	138,20	136,20

Sensitivity analysis

A 10% strengthening of the ISK against the following currencies on December 31, 2023 would have increased (decreased) the Company's equity and profit before income tax by the following amounts. The analysis is based on all other variables remaining unchanged.

	31.12.2023	31.12.2022
EUR	300	74
USD	422	202

The 10% weakening of the ISK against the above-mentioned currencies would have had the same effect but in the opposite direction, provided that all other variables had remained unchanged.

Amounts are in ISK thousands

e. *Operational risk*

Operational risk is the risk of direct or indirect loss that may occur due to a number of factors in the Company's operations, its staff work, technology and organization, inadequate or defective internal processes, and external factors other than credit, market and liquidity risk, such as due to changes in laws and general attitudes towards corporate governance. Operational risk arises for everyone the Company's operations.

It is the Company's policy to manage operational risk in an efficient manner in order to avoid financial losses and to protect its reputation, while ensuring that the rules of procedure do not limit the initiative and creativity of employees.

In order to reduce operational risk, the Company has taken various measures. Appropriate job separation has been established, the Company has emphasized good working conditions, emphasized cost analysis, planning and monitored business and compliance with the law, conducted regular risk assessments, trained employees, organized work processes and more.

14. **Development cost**

Development cost in the Income Statement is specified as follows:	2024	2023
Development cost	90.512	79.552
Capitalized development costs	(62.601)	(74.949)
Developement cost in the Income Statement	27.911	4.604

15. **Operating expenses**

Operating expenses in the Income Statement is specified as follows:	2024	2023
Operating expenses	103.432	59.680
Capitalized operating expenses	(70.644)	(40.279)
Operating expenses in the Income Statement	32.787	19.401

Advertising costs are separately identified in the Statement of Comprehensive Income and are therefore not part of other operating expenses above. Advertising costs are not capitalized among development costs and are therefore expensed in the Company's Statement of Comprehensive Income.

Amounts are in ISK thousands

Notes continuing:

16. **Capitalized developement cost**

Capitalized developement cost according to note 7 is specified as follows:	2024	2023
Capitalized development costs, see note 14	62.601	74.949
Capitalized salary and salary related cost, see note 6	247.164	245.516
Capitalized operating expenses, see note 15	70.644	40.279
Capitalized developement cost according to note 8	380.409	360.743
Received grants that lower capitalized development cost, see note 8	(131.284)	(138.606)
Capitalized developement cost, net of grants, see note 8	249.125	222.136

17. **Total operating expenses**

Total operating expenses in 2024 is specified as follows:	Capitalized	Cost in the Income Statem.	Total operat. exp. 2024
Developement cost	62.601	27.911	90.512
Salary and salary related cost	247.164	19.925	267.089
Operating expenses	70.644	32.787	103.432
Total operating exenses in 2024	380.409	80.624	461.033

Total operating expenses in 2023 is specified as follows:	Capitalized	Cost in the Income Statem.	Total operat. exp. 2023
Developement cost	74.949	4.604	79.552
Salary and salary related cost	245.516	15.619	261.135
Operating expenses	40.279	19.401	59.680
Total operating exenses in 2023	360.743	39.624	400.367

18. **Related parties**

Identity of related parties

The Company has a related party relationship with its shareholders with significant influence, companies owned by them and with its directors and executive officers and their spouses and dependent children.

Transactions with management and key personnel

Reference is made to note 6 on salaries and benefits for the Company's board and management.

There were no transactions with related parties in 2024. The Company received bond loans from related parties towards the end of 2024. The loans carried an interest rate of 25% and were repaid at the end of January 2025.

Related party balances:	31.12.2024	31.12.2023
Related party balance at year-end	43.429	39

19. **Events after the reporting period**

In January 2025, shareholders registered to purchase convertible bonds issued by the Company with a principal amount of up to ISK 175.0 million.

Amounts are in ISK thousands