

# **Solid Clouds hf**

## **Financial Statements 2022\***

\*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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Eiðistorgi 17  
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# Statement and Endorsement by the Board of Directors and CEO

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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). 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**

Brynjólfur Erlingsson was elected as an alternate board member at the last Annual General Meeting. He has extensive video game industry experience in acquiring new users and analyzing their gaming behavior. Brynjólfur is currently Head of Growth at Toca Boca and before that he worked for Mojang, Paradox Interactive, Electronic Arts and CCP on some of the biggest global video game franchises.

Daria Podenok has been engaged as Marketing manager. She has a master's degree in journalism from the University of Moscow. Daria has years of experience in planning and managing online and social media advertising campaigns for Nordical Travel, The Engine/Pipar, and Yandex, Russia's largest technology company.

Sigurður Ingi Ævarsson has been recruited as the lead game designer. He has 12 years' experience from CCP as a project manager, designer, and the manager of the Eve-Online store.

## **Impact of COVID-19 and the Russian invasion of Ukraine on Solid Clouds hf**

Covid-19 and the Russian invasion of Ukraine had negligible impact on the Company in 2022.

## **Operations and financial position**

Net loss for the year 2022 amounted to ISK 50.8 million (loss 2021: ISK 34.1 million). Total assets amounted to ISK 1,298.2 million at year-end 2022 (2021: ISK 1,336,6 million) and stockholders' equity stood at ISK 1,256.2 million at the same time (2021: ISK 1,298.4 million). The Company had an average of 19 employees during the year, the same as the year before.

Sovereign Space, Solid Clouds hf's first game, is maintained for the current community of players. There was little focus on its marketing, and as a result, its revenue decreased as the company focused on developing its latest game, Starborne Frontiers. The increase in wages and wage-related costs is explained by wage increases during the period and changes in operations. The increase in other costs is due to price increases and preparations for the release of Starborne Frontiers. The main reason for the reduction in assets year-on-year is explained by the decrease in cash due to investment in game development.

Solid Clouds hf achieved an important development milestone for Starborne Frontiers by entering into a closed test in Asia and Oceania in the middle of 2022. Another major development milestone was passed in February 2023 when the game was soft-launched in Apple's and Google's app stores. This is the start of Frontiers' soft launch process.

User feedback, engagement and monetization data gained during the soft launch period of Starborne Frontiers will be used to iterate and fine-tune the game. When the game has reached the required thresholds regarding Key Performance Indicators (KPIs), marketing efforts will be scaled up. The next major milestone will be the full global launch.

Capitalized Research and Development costs in 2022 amounted to ISK 861.3 million. The Company has allocated the capitalized development cost to the technology framework, the Sovereign Space game, and the Frontiers game. For further information, see Note 3g and Note 7.

Solid Clouds hf expects that the Company will receive about ISK 128.6 million in R&D tax credits in November 2023 for the 2022 operating year. The final review and approval are in the hands of the Icelandic Center for Research (Rannís) and the tax authorities (RSK).

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

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Payment of dividend is not authorized for the year 2022; the Company's Board of Directors refers to the Financial Statements regarding the offsetting of loss for the year and other changes in equity.

### Risk factors

The Company relies on direct marketing to acquire new users. For sustainable growth, the Lifetime value (LTV) of customers needs to be considerably higher than the cost of acquiring them. It is uncertain how long it will take the Company to calibrate and develop the Frontiers game to reach the minimum LTV required for large-scale user acquisitions.

As a technology developer, the Company is entitled to R&D tax credits from the Icelandic government. The ratio of tax credit for the allowed cost base was raised from 20% to 35% for the years 2022, 2023, and 2024. It is uncertain whether the increase will be extended or made permanent.

### Shareholders

The number of shareholders at the end of 2022 stood at 1,600, having been 1,587 at the beginning of the year and thus grew by 13. The following were the ten largest shareholders at year-end:

	2022	2021
Stefán Gunnarsson .....	10.4%	10.4%
Kjölur fjárfestingarfélag ehf .....	6.6%	6.6%
Sigurður Arnljótsson .....	4.1%	4.1%
Stefán Þór Björnsson .....	3.8%	3.8%
Frigus ehf .....	2.6%	2.6%
S9 ehf .....	1.9%	1.9%
Vilano Capital Sp.z.o.o. ....	1.7%	1.7%
Tómas Sigurðsson .....	1.7%	1.9%
Kvika - Innlend hlutabréf .....	1.6%	1.6%
Eggert Árni Gíslason .....	1.3%	1.3%
Other shareholders (1.590, 2021: 1.577) .....	64.3%	64.1%

### Share capital

The Company's registered share capital amounted to ISK 184.2 million at the end of the fiscal year 2022. 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 11.

### Governance

The Board of Directors of Solid Clouds hf makes a priority of 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](http://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.

## **Managing Director and Board of Directors' Report, continued:**

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### **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 2022, its assets, liabilities and financial position on 31 December 2022 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 2022 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.

Reykjavík, 31st of March 2023

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**Stefán Gunnarsson, Managing Director**

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**Sigurlína Ingvarsdóttir, Chairman of the Board**

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**Ólafur Andri Ragnarsson, VC of the Board**

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**Svanhvít Friðriksdóttir, Board Member**

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**Guðmundur Ingi Jónsson, Board Member**

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**Eggert Árni Gíslason, Board Member**

# Independent Auditor's Report

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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, 2022 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 2022, and its financial performance and its cash flows for the year then ended 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). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Other information**

The Board of Directors and the CEO are responsible for the other information. The other information comprises the report of board of directors.

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 regarding Managing Director and Board of Directors' Report 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 report of the board of directors 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.

## Independent Auditor's Report, contd.

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### **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, 31st of March 2023

**Deloitte ehf**

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**Signý Magnúsdóttir**

State Authorized Public Accountant





# Statement of Comprehensive Income for the year 2022

	Notes	2022	2021
<b>Operating income</b>			
Operating revenues .....	5	11,142	14,353
		11,142	14,353
<b>Operating expenses</b>			
Development cost .....	14	4,929	3,308
Salaries and related expenditures .....	6	14,004	8,677
Operating expenses .....	15	24,687	20,173
		43,619	32,158
Operating loss before depreciation and financial inc. and expenses .....		( 32,478)	( 17,806)
Depreciation of development costs and right-of use assets .....	7,8	( 73,686)	( 45,553)
Operating loss before financial income and expenses and income tax .....		( 106,164)	( 63,359)
<b>Financial income and (expenses)</b>			
Interest revenues .....		13,625	3,313
Interest expenses .....		( 1,904)	( 1,241)
Currency exchange difference .....		326	( 1,314)
		12,047	758
Operating loss before income tax .....		( 94,117)	( 62,601)
Income tax .....	9	43,335	28,534
<b>Net loss for the year .....</b>		<b>( 50,782)</b>	<b>( 34,067)</b>

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

# Statement of Financial Position, December 31, 2022

	Notes	31.12.2022	31.12.2021
<b>Assets</b>			
Development cost .....	7	861,253	690,347
Right-of use assets .....	8	10,706	10,222
Income tax asset .....	9	104,187	60,852
		<b>Non-current assets</b>	<b>761,421</b>
Receivables .....		4,710	2,204
Other receivables .....		7,223	3,343
Cash and cash equivalents .....		310,118	569,625
		<b>Current assets</b>	<b>575,172</b>
		<b>Total assets</b>	<b>1,336,593</b>
		<b>1,298,195</b>	<b>1,336,593</b>
<b>Equity</b>			
Share capital .....		184,199	184,199
Share premium .....		420,496	641,911
Restricted equity .....		861,253	690,347
Share based payments .....		11,918	3,373
Accumulated deficit .....		( 221,688)	( 221,415)
	11	<b>Total stockholders equity</b>	<b>1,298,415</b>
<b>Non-current liabilities</b>			
Lease liabilities .....	8	4,901	4,534
		<b>Non-current liabilities</b>	<b>4,534</b>
<b>Liabilities</b>			
Lease liabilities .....	8	6,768	6,352
Accounts payable .....		4,161	2,450
Other payables .....	10	26,189	24,842
		<b>Current liabilities</b>	<b>33,644</b>
		<b>Total liabilities</b>	<b>38,178</b>
		<b>Total equity and liabilities</b>	<b>1,336,593</b>
		<b>1,298,195</b>	<b>1,336,593</b>

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

## Statement of Changes in Equity December 31, 2022

	Share capital	Share premium	Restricted equity	Share-based payments	Accumul. deficit	Total Equity
<b>Changes in 2021</b>						
Equity December 31, 2020 .....	2,108	733,299	545,677	4,689	( 651,954)	633,819
Stock split .....	124,022	( 124,022)				0
Accumulated deficit moved to share premium .....		( 609,276)			609,276	0
Paid-in capital .....	68	42,678				42,746
Share capital increase in public offering .....	58,000	667,000				725,000
Cost of public offering .....		( 67,767)				( 67,767)
Comprh. loss for the year .....					( 34,067)	( 34,067)
Restricted equity .....			144,670		( 144,670)	0
Share based payments .....				( 1,316)		( 1,316)
Equity December 31, 2021 .....	184,199	641,911	690,347	3,373	( 221,415)	1,298,415
<b>Changes in 2022</b>						
Equity December 31, 2021 .....	184,199	641,911	690,347	3,373	( 221,415)	1,298,415
Accumulated deficit moved to share premium .....		( 221,415)			221,415	0
Comprh. loss for the year .....					( 50,782)	( 50,782)
Restricted equity .....			170,906		( 170,906)	0
Share based payments .....				8,545		8,545
Equity December 31, 2022 .....	184,199	420,496	861,253	11,918	( 221,688)	1,256,177

See further information about equity in note 11.

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

# Statement of Cash Flows for the year 2022

	Notes	2022	2021
<b>Operating activities</b>			
Operating loss before financial income and expenses and income tax .....		( 106,164)	( 63,359)
Adjustments to reconcile results from operation to operating activities:			
Depreciation of development costs and right-of-use assets .....	8	73,686	45,553
Share based payments, change .....		8,545	( 1,316)
		( 23,933)	( 19,122)
Working capital used in operating activities			
Operating assets, changes .....		( 6,276)	2,225
Operating liabilities, changes .....		3,057	17,097
		( 27,151)	200
Cash (used in) provided by operating activities			
Interest revenues received .....		13,625	3,313
Interest expenses paid .....		( 1,207)	( 1,241)
		( 14,733)	2,271
Net cash (used in) provided by operating activities			
<b>Investment activities</b>			
Capitalized development cost .....	7	( 350,909)	( 286,280)
Grants that lower capitalized development cost .....	7	112,488	102,078
		( 238,421)	( 184,202)
Investment activities			
<b>Financing activities</b>			
Paid-in share captial, net of cost of public offering .....		0	699,979
Instalments of lease liabilities .....		( 6,679)	( 6,072)
		( 6,679)	693,907
Financing activities			
<b>(Decrease) increase of cash and cash equivalents .....</b>		<b>( 259,833)</b>	<b>511,976</b>
<b>Cash and cash equivalents at beginning of year .....</b>		<b>569,625</b>	<b>58,963</b>
<b>Translation difference of cash and cash equivalents .....</b>		<b>326</b>	<b>( 1,314)</b>
<b>Cash and cash equivalents at end of year .....</b>		<b>310,118</b>	<b>569,625</b>

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

# Notes to the Financial Statements

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## 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, 31st, 2023.

### 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.

### e. Going concern

It is the opinion of the Company's management that the continued operation of the Company is guaranteed and that the Company is ready to meet its obligations for the next 12 months.

The Financial Statements are therefore presented based on continuing operations.

## Notes, cont.:

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### 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.

Reimbursement for research and development costs for the year 2022 will be paid in October or November 2023. The reimbursement has not been recognized.

#### 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 11d 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, cont.:

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### 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 incurred. After capitalization, development costs are booked at cost less accumulated depreciation and impairment.

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 12b.

The Company delists 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.



## Notes continuing:

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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**

Several new international accounting standards apply to financial years beginning on or after 1 January 2022 and may be applied prior to their effective date. The Company has not implemented new or amended accounting standards for the period of validity when preparing these Financial Statements.

It is the management's opinion that the implementation of the improvements mentioned above, or other changes to standards that have been approved but have not entered into force, will not have a significant impact on the Financial Statements.

- IFRS7 and amendments to IFRS 17 Insurance contracts.
- Notes on accounting principles (Amendments to IAS 1 and Guideline IFRS No. 2).
- Definition of accounting estimates (Amendments to IAS 8).

## 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 2022 compared to 2021, with 15 biggest each year:

	2022		2021	
	Sale in ISK thousands	Percentage of sale	Sale in ISK thousands	Percentage of sale
United States of America (USA) .....	3,384	30.37%	5,486	34.33%
Canada .....	1,620	14.54%	2,436	15.24%
United Kingdom .....	1,358	12.19%	1,920	12.02%
Australia .....	790	7.09%	996	6.23%
Romania .....	493	4.43%	194	1.21%
Belgium .....	349	3.13%	-	-
Sweden .....	310	2.78%	227	1.42%
Norway .....	256	2.30%	-	-
Estonia .....	245	2.20%	-	-
France .....	209	1.88%	387	2.42%
Bulgaria .....	200	1.80%	-	-
Netherlands .....	185	1.66%	208	1.30%
China .....	182	1.63%	-	-
Germany .....	158	1.41%	464	2.91%
Poland .....	156	1.40%	-	-
Lithuania .....	-	-	343	2.15%
Mexico .....	-	-	280	1.75%
Greece .....	-	-	243	1.52%
Denmark .....	-	-	203	1.27%
Philippines .....	-	-	203	1.27%
Mauritius .....	-	-	180	1.12%
45 / 45 other countries .....	1,246	11.18%	583	13.84%
Revenues from the game .....	11,142	100.00%	14,353	100.00%

All revenues in 2022 are from the game: Sovereign Space.

### 6. Salaries and salary related expenditures

Salaries and salary related expenditures are specified as follows:

	2022	2021
Salaries .....	200,908	165,129
Salary related expenditures .....	44,481	34,780
Salaries and salary related expenditures in the Income Statement .....	245,389	199,910
Capitalized salaries and salary related expenditures as development cost .....	( 231,385)	( 191,233)
Expensed salaries and salary related expenditures .....	14,004	8,677
Average number of full time equivalent employees .....	19	19

The total salaries of the Board, and managing directors (2022: two employees, eight board members, 2021: two employees, one board member) amounted to a total of ISK 37.1 million in the year 2022 (2021: ISK 26.7 million). Pension fund payments amounted to ISK 4.4 million during the year 2022 (2021: ISK 3.2 million).

## Notes continuing:

### 7. 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. A change was made to the management's assessment of the estimated lifetime of capitalized development projects in 2022 from the previous year. The reason for those changes was based on a detailed division of costs down to defined projects and an assessment of the lifetime of each project based on the expected economic benefits of the projects. See more about amortization of development costs in explanation 3g.

Development cost and depreciation are specified as follows:	2022	2021
Book value 1.1. ....	690,347	545,677
Capitalized development cost, see note 16 .....	350,909	286,280
Grants that lower capitalized development cost, see note 13 .....	( 112,488)	( 102,078)
Depreciation of development cost .....	( 67,516)	( 39,532)
Book value 31.12. ....	861,253	690,347
Depreciation time of development cost .....	5-20 years	10 years

### 8. Leases

The Balance Sheet shows the following amounts relating to leases:

<i>Right-of use assets</i>	2022	2021
Balance at the beginning of the year .....	10,222	13,428
Increase in right-of-use assets due to revaluation of lease liabilities .....	1,223	541
Renewed lease agreements during the year .....	5,432	2,274
Depreciation during the year .....	( 6,171)	( 6,021)
Balance at the end of the year .....	10,706	10,222
<i>Lease liabilities</i>		
Non-current .....	4,901	4,534
Current .....	6,768	6,352
Total lease liabilities .....	11,668	10,886

The Income Statement shows the following amounts relating to leases:

Depreciation of right-of-use assets .....	6,171	6,021
Interest expense (included in interest expenses) .....	1,269	783
Total expense in the Income Statement for leases .....	7,439	6,804

The Company paid ISK 7.1 million in rent in the year 2022 (2021: ISK 6.7 million).

## Notes continuing:

8. cont.	2022	2021
Depreciation in the Income Statement is specified as follows:		
Depreciation of right-of-use assets, see above .....	6,171	6,021
Depreciation of development costs, see note 7 .....	67,516	39,532
Total depreciation expense in the Income Statement .....	73,686	45,553

### 9. Income tax asset

Income tax asset is specified as follows:

Income tax asset at the beginning of the year .....	60,852	323,800
Income tax in the Income Statement .....	43,335	28,534
Income tax asset at the end of the year .....	104,187	60,852

Calculated income tax asset is divided to the following items:

Accumulated tax loss .....	276,393	198,870
Development cost .....	(172,251)	(138,069)
Currency exchange difference .....	44,169	50,891
Income tax asset in the Balance Sheet .....	104,187	60,852

The tax loss at the end of 2022, which may be carried forward according to Icelandic tax law, amounts to ISK 1,382 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 2021 is usable as follows:

Tax loss for the year 2013, useable until the year 2023 .....	967
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
Carry-forward tax loss at year-end 2022 .....	1,381,965

### 10. Other payables

Other payables is specified as follows:

	31.12.2021	31.12.2020
Unpaid salary and salary related expenses .....	25,967	24,433
Government charges .....	20	19
Prepaid income .....	0	200
Liabilities to related parties .....	202	190
Other payables 31.12. ....	26,189	24,842

## Notes continuing:

### 11. Equity

#### a. Share capital

The Company's share capital, according to its Article of Association amounts to ISK 184,2 million (2021: 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 in 2022. The stock option plan is for four years, where employees 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. An employee 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 and are valued using the Black-Scholes pricing model. 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 total cost of the stock option plan is estimated at ISK 22.5 million. The cost of 2022 amounted to ISK 8.5 million and that cost is transferred through the Income Statement. The estimated remaining cost of the stock options amounts to ISK 13.4 million and will be charged over the next four years.

The following table shows an analysis of stock options in the year 2022:	Number of shares	Average redempt. price
Stock option agreements at the beginning of 2022 .....	1,333,680	5.80
Granted stock options during the year 2022 .....	9,429,023	10.00
Expired stock options during the year 2022 .....	( 754,038)	10.10
Stock option agreements at the end of 2022 .....	10,008,665	9.43

In 2022, stock option agreements were signed with 19 employees for a total of 9,429,023 shares with a purchase price of 10. The vesting period is two to four years with a possible extension.

The following table shows an analysis of stock options in the year 2021:	Number of shares	Average redempt. price
Stock option agreements at the beginning of 2021 .....	2,426,974	4.56
Granted stock options during the year 2021 .....	397,794	6.04
Cancelled stock options during the year 2021 .....	( 1,491,088)	8.27
Stock option agreements at the end of 2021 .....	1,333,680	5.80

## Notes continuing:

### 12. 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 2022 and 2021 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:	31.12.2022	31.12.2021
Trade and other receivables .....	7,737	3,412
Largest possible loss on trade and other receivables .....	7,737	3,412
Cash and cash equivalents .....	310,118	569,625
Largest possible loss on financial assets .....	317,855	573,037

## Notes continuing:

### *Impairment on receivables*

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

	Nominal value		Impairment	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Not yet due .....	7,737	3,412	0	0
Total trade receivables .....	7,737	3,412	0	0

The majority of financial assets within the impairment model of IFRS 9 are bank deposits, and it is the opinion of management that they carry insignificant credit risk. Credit risk on trade receivables and other short-term receivables is also assessed as insignificant, as the majority of them are credit card receivables. 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:

<b>December 31, 2022</b>		Contractual	Within	1-5	Over
	Book value	cash flow	one year	years	5 years
Lease liabilities .....	11,668	11,668	6,768	4,901	0
Accounts payables .....	4,161	4,161	4,161	0	0
Related party liabilities .....	202	202	202	0	0
Other payables .....	21,958	21,958	21,958	0	0
Total financial liabilities ...	37,989	37,989	33,088	4,901	0

<b>December 31, 2021</b>		Contractual	Within	1-5	Over
	Book value	cash flow	one year	years	5 years
Interest bearing debt .....	10,886	11,467	6,352	4,534	0
Accounts payables .....	2,450	2,450	2,450	0	0
Related party liabilities .....	193	193	193	0	0
Other payables .....	20,611	20,611	20,611	0	0
Total financial liabilities ...	34,140	34,721	29,606	4,534	0

## Notes continuing:

### 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:

<b>December 31, 2022</b>	EUR	USD	Total
Receivables .....	181	0	181
Cash and cash equivalents .....	3,614	4,051	7,665
Trade payables .....	0	(2,565)	(2,565)
Net currency risk .....	3,795	1,486	5,281

  

<b>December 31, 2021</b>	EUR	USD	Total
Receivables .....	235	0	235
Cash and cash equivalents .....	2,969	192	3,161
Trade payables .....	(625)	0	(625)
Net currency risk .....	2,578	192	2,770

The exchange rates of the major currencies during the years 2022 and 2021 were as follows:

	Average exchange rate		Period-end exchange rate	
	Year 2022	Year 2021	31.12.2022	31.12.2021
EUR .....	142.33	150.19	151.50	147.60
USD .....	135.46	127.05	142.04	130.38

#### Sensitivity analysis

A 10% strengthening of the ISK against the following currencies on December 31, 2022 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.

	31.12.2022	31.12.2021
EUR .....	379	258
USD .....	149	19

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.



## Notes continuing:

### 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.

### 13. Grants

Grants in the Income Statement are specified as follows:	2022	2021
Received grants .....	112,488	102,078
Received grants that lower capitalized development cost, see note 7 .....	( 112,488)	( 102,078)
Grants in the Income Statement .....	<u>0</u>	<u>0</u>

### 14. Development cost

Development cost in the Income Statement is specified as follows:	2022	2021
Development cost .....	98,424	66,157
Capitalized development costs .....	( 93,495)	( 62,849)
Development cost in the Income Statement .....	<u>4,929</u>	<u>3,308</u>

### 15. Operating expenses

Operating expenses in the Income Statement is specified as follows:	2022	2021
Operating expenses .....	50,716	52,371
Capitalized operating expenses .....	( 26,029)	( 32,198)
Operating expenses in the Income Statement .....	<u>24,687</u>	<u>20,173</u>

## Notes continuing:

### 16. Capitalized development cost

Capitalized development cost according to note 7 is specified as follows:	2022	2021
Capitalized development costs, see note 14 .....	93,495	62,849
Capitalized salary and salary related cost, see note 6 .....	231,385	191,233
Capitalized operating expenses, see note 15 .....	26,029	32,198
Capitalized development cost according to note 7 .....	350,909	286,280
Received grants that lower capitalized development cost, see note 13 .....	( 112,488)	( 102,078)
Capitalized development cost, net of grants, see note 7 .....	238,421	184,202

### 17. Total operating expenses

Total operating expenses in 2022 is specified as follows:	Capitalized	Cost in the Income Statem.	Total operat. exp. 2022
Development cost .....	93,495	4,929	98,424
Salary and salary related cost .....	231,385	14,004	245,389
Operating expenses .....	26,029	24,687	50,716
Total operating expenses in 2022 .....	350,909	43,619	394,529
Total operating expenses in 2021 is specified as follows:	Capitalized	Cost in the Income Statem.	Total operat. exp. 2021
Development cost .....	62,849	3,308	66,157
Salary and salary related cost .....	191,233	8,677	199,910
Operating expenses .....	32,198	20,173	52,371
Total operating expenses in 2021 .....	286,280	32,158	318,438

### 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 2022.

<b>Related party balances:</b>	31.12.2022	31.12.2021
Related party balance at year-end .....	203	190

# Specifications

Development cost	2022	2021
Game design .....	65,616	16,910
Domestic purchases .....	0	53
Transport .....	8	14
Image Processing .....	15,407	34,412
Software .....	17,394	14,769
Capitalized development costs .....	( 93,495)	( 62,849)
	4,929	3,308
<b>Salaries and related expenditures</b>		
Salaries .....	200,908	165,129
Mandatory social security contribution .....	14,413	11,719
Pension funds .....	24,043	20,085
Accrued leave, change .....	4,779	3,511
Other union funds .....	1,246	853
Other salary-related expenses .....	0	(1,388)
Capitalized development costs because of salaries .....	( 231,385)	( 191,233)
	14,004	8,677
<b>Other operating expenses</b>		
Phones and internet connection .....	3,319	2,977
Postage expenses .....	0	16
Books and papers .....	85	78
Paper, printing and other office supplies .....	38	77
Computerized IT systems .....	2,495	5,355
Accounting services .....	10,152	10,286
Legal services .....	350	1,123
Purchased services .....	1,049	2,433
Per diem .....	184	1,550
Travel expenses .....	2,587	1,755
Meetings and conferences .....	1,721	2,871
Advertising .....	1,523	3,448
Marketing cost .....	0	688
Bank cost .....	4,429	2,915
Insurances .....	71	0
House maintenance and repair .....	2	253
Cleaning products .....	688	578
Transportation cost .....	196	248
Car support cost .....	7,965	6,899
Car gasoline .....	41	251
Other car cost .....	0	0
Tools and equipment, charged .....	3,544	951
Tools and equipment, maintenance .....	923	259
Cost of food and coffee related expenses .....	6,172	4,579
Other staff cost .....	2,574	2,678
Membership fees .....	513	59
Gifts .....	13	25
Mandatory fee to RUV (national radio) .....	20	19
Other cost .....	60	0
Capitalized development costs because of other operating expenses .....	(26,029)	(32,198)
	24,687	20,173