

Solid Clouds hf

Financial Statements 2023*

*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

Davíð Gunnarsson was elected as an alternate board member during the most recent Annual General Meeting. He brings with him a wealth of experience in the management of technology companies as the current CEO of Dohop.

Operations and financial position

Net loss for the year 2023 amounted to ISK 83.1 million (loss 2022: ISK 50.8 million). Total assets amounted to ISK 1,217.7 million at year-end 2023 (2022: ISK 1,298,2 million) and stockholders' equity stood at ISK 1,175.1 million at the same time (2022: ISK 1,256.2 million). The Company had an average of 21 employees during the year 2023, compared with 19 the year before.

The rise in other expenses can be attributed to the preparations for the publication of Starborne Frontiers and general price inflation. The main reason for the decrease in assets between years is explained by the decrease in cash, but it decreases mainly due to the investment in game development, but the investment is capitalized among development cost in the Company's Balance Sheet.

The soft launch phase of Starborne Frontiers commenced in February 2023, with the game becoming accessible on smart devices via Apple and Google's app stores. The integration of the final major game system, known as the Abyss, was completed in October. Data on player behavior collected from Starborne Frontiers will enhance further development and optimization efforts, aiming to meet specific benchmarks for each user's earnings and engagement time.

Capitalized Research and Development costs at year-end 2023 amounted to ISK 995.1 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.

At year-end 2023, Solid Clouds hf reported a cash position of ISK 44.0 million. Furthermore, the Company anticipates a grant of approximately ISK 132.7 million for research and development expenses, pending approval from authorities in November 2024.

In February 2024, Solid Clouds hf issued new shares with a nominal value of ISK 147.6 million, raising ISK 295.2 million in capital. This financial injection will be used for the operations and marketing of Starborne Frontiers in 2024.

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

Risk factors

Solid Clouds hf 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, and the budget foresees the same increase for 2025. The government has indicated that the increase to 35% will be made permanent, but there is uncertainty about if and when it will happen.

Shareholders

The number of shareholders at the end of 2023 stood at 1,581, having been 1,600 at the beginning of the year and thus decreased by 19. The following were the ten largest shareholders at year-end 2023 with comparison with same shareholders at year-end 2022:

	2023	2022
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%
S9 ehf	1.9%	1.9%
Vilano Capital Sp.z.o.o.	1.7%	1.7%
Tómas Sigurðsson	1.7%	1.7%
Eggert Árni Gíslason	1.6%	1.3%
Kvika - Innland hlutabréf	1.6%	1.6%
Haraldur Ingi Þorleifsson	1.3%	1.3%
Other shareholders (1.571, 2022: 1.590)	65.3%	65.6%

Share capital

The Company's registered share capital amounted to ISK 184.2 million at the end of the fiscal year 2023. 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 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.

Managing Director and Board of Directors' Report, continued:

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 2023, its assets, liabilities and financial position on 31 December 2023 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 2023 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, 27th of March 2024

Stefán Gunnarsson, Managing Director

Sigurlína Ingvarsdóttir, Chairman of the Board

Ólafur Andri Ragnarsson, VC of the Board

Brynjólfur Erlingsson, Board Member

Eggert Árni Gíslason, 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, 2023 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 2023, 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) 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.

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.

Independent Auditor's Report, contd.

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, 27th of March 2024

Deloitte ehf

Signý Magnúsdóttir
State Authorized Public Accountant

Statement of Comprehensive Income for the year 2023

	Notes	2023	2022
Operating income			
Operating revenues	5	20,468	11,142
		20,468	11,142
Operating expenses			
Development cost	14	4,604	4,929
Salaries and related expenditures	6	15,619	14,004
Operating expenses	15	53,255	24,687
		73,478	43,619
Operating loss before depreciation and financial inc. and expenses		(53,011)	(32,478)
Depreciation of development costs and right-of use assets	7,8	(93,246)	(73,686)
Operating loss before financial income and expenses and income tax		(146,257)	(106,164)
Financial income and (expenses)			
Interest revenues		9,304	13,625
Interest expenses		(1,354)	(1,904)
Currency exchange difference		(318)	326
		7,632	12,047
Operating loss before income tax		(138,626)	(94,117)
Income tax	9	55,549	43,335
Net loss for the year		(83,077)	(50,782)

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

Statement of Financial Position, December 31, 2023

	Notes	31.12.2023	31.12.2022
Assets			
Development cost	7	995,148	861,253
Right-of use assets	8	4,472	10,706
Income tax asset	9	159,736	104,187
		Non-current assets	976,145
Receivables		8,535	4,710
Other receivables		5,799	7,223
Cash and cash equivalents		44,003	310,118
		Current assets	322,050
		Total assets	1,217,693
			1,298,195
Equity			
Share capital		184,199	184,199
Share premium		198,808	420,496
Restricted equity		995,148	861,253
Share based payments		13,945	11,918
Accumulated deficit		(216,973)	(221,688)
	11	Total stockholders equity	1,256,177
Non-current liabilities			
Lease liabilities	8	0	4,901
		Non-current liabilities	4,901
Liabilities			
Lease liabilities	8	4,900	6,768
Accounts payable		6,556	4,161
Other payables	10	31,109	26,189
		Current liabilities	37,117
		Total liabilities	42,018
		Total equity and liabilities	1,298,195

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

Statement of Changes in Equity December 31, 2023

	Share capital	Share premium	Restricted equity	Share-based payments	Accumul. deficit	Total Equity
Changes in 2022						
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
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	(216,972)	1,175,127

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 2023

	Notes	2023	2022
Operating activities			
Operating loss before financial income and expenses and income tax		(146,257)	(106,164)
Adjustments to reconcile results from operation to operating activities:			
Depreciation of development costs and right-of-use assets	8	93,246	73,686
Share based payments, change		2,026	8,545
Working capital used in operating activities		(50,984)	(23,933)
Operating assets, changes		(2,401)	(6,276)
Operating liabilities, changes		7,316	3,057
Cash used in operating activities		(46,069)	(27,151)
Interest revenues received		9,304	13,625
Interest expenses paid		(1,354)	(1,207)
Net cash used in operating activities		(38,119)	(14,733)
Investment activities			
Capitalized development cost	7	(360,743)	(350,909)
Grants that lower capitalized development cost	7	138,606	112,488
Investment activities		(222,137)	(238,421)
Financing activities			
Instalments of lease liabilities		(5,540)	(6,679)
Financing activities		(5,540)	(6,679)
Decrease of cash and cash equivalents		(265,796)	(259,833)
Cash and cash equivalents at beginning of year		310,118	569,625
Translation difference of cash and cash equivalents		(318)	326
Cash and cash equivalents at end of year		44,003	310,118

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

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, 27th, 2024.

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, but in note 1g and note 7 you can see more detailed information regarding 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 after the financial reporting date.

The Financial Statements are therefore presented based on continuing operations.

Notes continuing:

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 2023 will be paid in October or November 2024.

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 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 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:

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 Company 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.

- IFRS 17 Insurance Contracts	New accounting standard
- IAS 1 Presentation of Financial Statements	Disclosure of accounting policies
- IAS 8 Accounting policies, Changes in Accounting	Definition of Accounting Estimates
- IAS 12 Income tax	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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 2024:

- 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
- IFRS 16 Leases	Lease Liability in a Sale and Leaseback

The Management of the Company do not expect that the adoption of the amended Standards 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 2023 compared to 2022, with 15 biggest each year:

	2023		2022	
	Sale in ISK thousands	Percentage of sale	Sale in ISK thousands	Percentage of sale
United States of America (USA)	10,848	53.00%	3,384	30.37%
United Kingdom	2,067	10.10%	1,358	12.19%
Canada	1,556	7.60%	1,620	14.54%
Australia	1,392	6.80%	790	7.09%
Polland	903	4.41%	156	1.40%
France	471	2.30%	209	1.88%
Bulgaria	450	2.20%	200	1.80%
Romania	430	2.10%	493	4.43%
Norway	307	1.50%	256	2.30%
Slovenia	225	1.10%	25	0.22%
Sweden	184	0.90%	310	2.78%
Hungary	123	0.60%	21	0.19%
Belgium	102	0.50%	349	3.13%
Germany	92	0.45%	158	1.41%
Netherlands	90	0.44%	185	1.66%
39 / 45 other countries	1,228	6.00%	1,627	14.60%
Revenues from the game	20,468	100.00%	11,142	100.00%

6. Salaries and salary related expenditures

Salaries and salary related expenditures are specified as follows:

	2022	2022
Salaries	211,231	192,363
Cost of share based payments	2,026	8,545
Salary related expenditures	47,878	44,481
Salaries and salary related expenditures in the Income Statement	261,135	245,389
Capitalized salaries and salary related expenditures as development cost	(245,516)	(231,385)
Expensed salaries and salary related expenditures	15,619	14,004
Average number of full time equivalent employees	21	19

The total salaries of the Board, and managing directors (2023: two employees, eight board members, 2022: two employees, eight board members) amounted to a total of ISK 40.5 million in the year 2023 (2022: ISK 37.1 million). Pension fund payments amounted to ISK 4.7 million during the year 2023 (2022: ISK 4.4 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. See more about amortization of development costs in explanation 3g.

Development cost and depreciation are specified as follows:	2023	2022
Book value 1.1.	861,253	690,347
Capitalized development cost, see note 16	360,743	350,909
Grants that lower capitalized development cost, see note 13	(138,606)	(112,488)
Depreciation of development cost	(88,241)	(67,516)
Book value 31.12.	995,148	861,253
Depreciation time of development cost	5-20 years	5-20 years

8. Leases

The Balance Sheet shows the following amounts relating to leases:

<i>Right-of use assets</i>	2023	2022
Balance at the beginning of the year	10,706	10,222
Change in right-of-use assets during the year	(1,229)	6,654
Depreciation of right-of-use assets during the year	(5,005)	(6,171)
Balance at the end of the year	4,472	10,706
<i>Lease liabilities</i>		
Non-current	0	4,901
Current	4,900	6,768
Total lease liabilities	4,900	11,668

The Income Statement shows the following amounts relating to leases:

Depreciation of right-of-use assets	5,005	6,171
Interest expense	766	1,269
Total expense in the Income Statement for leases	5,771	7,439

The Company paid ISK 6.3 million in rent in the year 2023 (2022: ISK 7.1 million).

Depreciation in the Income Statement is specified as follows:

Depreciation of right-of-use assets, see above	5,005	6,171
Depreciation of development costs, see note 7	88,241	67,516
Total depreciation expense in the Income Statement	93,246	73,686

Notes continuing:

8. cont.

The Company's lease agreement for the premises in which the Company's operations are located ended at the end of 2023. The agreement has not been renewed, but the mutual notice period for the lease period was three months. The Company is looking at the situation and opportunities regarding its future housing.

9. Income tax asset

Income tax asset is specified as follows:	2023	2022
Income tax asset at the beginning of the year	104,187	60,852
Income tax in the Income Statement	55,549	43,335
Income tax asset at the end of the year	159,736	104,187

Calculated income tax asset is divided to the following items:

Accumulated tax loss	358,745	276,393
Development cost	(199,030)	(172,251)
Currency exchange difference	21	44
Income tax asset in the Balance Sheet	159,736	104,187

The tax loss at the end of 2023, which may be carried forward according to Icelandic tax law, amounts to ISK 1,793 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 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
Tax loss for the year 2023, useable until the year 2033	411,758
Carry-forward tax loss at year-end 2022	1,793,723

Calculated income tax assets are recognized due to the Company's tax loss carryforwards, as it is management's assessment that it is more likely than not that the tax loss will be used against profits in the following years. The management's assessment is based on the operating plans for the coming years and aims that the Company's new game, Starborn Frotniers, will sell well in the coming years. As stated above, each year's tax loss can be used for 10 years.

10. Other payables

Other payables is specified as follows:	31.12.2023	31.12.2022
Unpaid salary and salary related expenses	31,050	25,967
Government charges	21	20
Liabilities to related parties	39	202
Other payables 31.12.	31,109	26,189

Notes continuing:

11. Equity

a. Share capital

The Company's share capital, according to its Article of Association amounts to ISK 184,2 million (2022: 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. 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 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
	<hr/>	<hr/>
Stock option agreements at the end of 2023	9,653,823	10.00

In 2023, stock option agreements were signed with two contractors for 224,800 shares at a purchase price of 10. The vesting period is two to four years with a possible extension. A total of 21 employees and contractors have a stock option agreement with the Company at year-end 2023.

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
	<hr/>	<hr/>
Stock option agreements at the end of 2022	10,008,665	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 2023 and 2022 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:	31.12.2023	31.12.2022
Trade and other receivables	12,395	7,737
Largest possible loss on trade and other receivables	12,395	7,737
Cash and cash equivalents	44,003	310,118
Largest possible loss on financial assets	56,398	317,855

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	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Not yet due	12,395	7,737	0	0
Total trade receivables	12,395	7,737	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:

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	0	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	0	0

December 31, 2022	Book value	Contractual cash flow	Within one year	1-5 years	Over 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	30,907	30,907	30,907	0	0
Total financial liabilities ...	46,938	46,938	42,038	4,901	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:

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
December 31, 2022	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

The exchange rates of the major currencies during the years 2023 and 2022 were as follows:

	Average exchange rate		Period-end exchange rate	
	Year 2023	Year 2022	31.12.2023	31.12.2022
EUR	149.14	142.33	150.50	151.50
USD	137.98	135.46	136.20	142.04

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	74	379
USD	202	149

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:	2023	2022
Received grants	138,606	112,488
Received grants that lower capitalized development cost, see note 7	(138,606)	(112,488)
Grants in the Income Statement	<u>0</u>	<u>0</u>

14. Development cost

Development cost in the Income Statement is specified as follows:	2023	2022
Development cost	79,552	98,424
Capitalized development costs	(74,949)	(93,495)
Development cost in the Income Statement	<u>4,604</u>	<u>4,929</u>

15. Operating expenses

Operating expenses in the Income Statement is specified as follows:	2023	2022
Operating expenses	93,534	50,716
Capitalized operating expenses	(40,279)	(26,029)
Operating expenses in the Income Statement	<u>53,255</u>	<u>24,687</u>

Notes continuing:

16. Capitalized development cost

Capitalized development cost according to note 7 is specified as follows:	2023	2022
Capitalized development costs, see note 14	74,949	93,495
Capitalized salary and salary related cost, see note 6	245,516	231,385
Capitalized operating expenses, see note 15	40,279	26,029
Capitalized development cost according to note 7	360,743	350,909
Received grants that lower capitalized development cost, see note 13	(138,606)	(112,488)
Capitalized development cost, net of grants, see note 7	222,136	238,421

17. Total operating expenses

Total operating expenses in 2023 is specified as follows:	Capitalized	Cost in the Income Statem.	Total operat. exp. 2023
Development cost	74,949	4,604	79,552
Salary and salary related cost	245,516	15,619	261,135
Operating expenses	40,279	53,255	93,534
Total operating expenses in 2023	360,743	73,478	434,221
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

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 2023.

Related party balances:	31.12.2023	31.12.2022
Related party balance at year-end	39	203

19. Events after the reporting period

In February 2024, the Company's board of directors decided to increase the share capital by issuing 147,600,945 new shares following a closed share offer and a general share offer. The proceeds amounted to ISK 295.2 million and will therefore be allocated to the operation and marketing of Starborne Frontiers in 2024.