

Covenant.dev S.A.

REPORT
OF THE COMPANY'S ACTIVITIES
FOR 2021



COVENANT

Dear Shareholders, Associates and Partners

The second year of Covenant's activity, in which the company consistently implemented the adopted strategy and which was marked by several key events, is behind us.

In April 2021, the company presented a trailer for Gord, which received over one million views on the IGN platform. This undoubted success created the global interest of publishing companies in our product and their desire to establish cooperation with the company.

As a result of talks and negotiations, in August 2021, a decision was made to sign a publishing agreement for the release and sale of Gord with TEAM17 DIGITAL LIMITED from the United Kingdom.

The agreement with TEAM17 DIGITAL LIMITED resulted in the company receiving financial resources and obtaining sales revenues of over PLN four million in 2021.

The key element of the strategy is to build high-quality staff, which was reflected in many experienced colleagues with very high competences joining the team in 2021.

Our activity and attention in the field of building a company that is attractive to employees have been recognized by the Great Place to Work® award for the best company among small and medium-sized enterprises in Poland. We have also been recognized as one of the best places to work in Europe.

We are consistently developing Gord, and we have already started conceptual work on new projects with the working names PERUN and ROD.

I invite you to read the report.

Yours faithfully,

Stanislaw Just

CEO

Statement of the Management Board of Covenant.dev S.A.

Hereby the Management Board of Covenant.dev S.A. declares that, to the best of its knowledge, the annual financial statements and comparable data have been prepared in accordance with the applicable accounting principles and reflect in a true, fair and clear manner the property and financial position of Covenant.dev and its financial result, and that the company's annual activity report provides a true picture of the development and achievements and situation of the company, Covenant.dev, including a description of the risks.

The Management Board of Covenant.dev S.A. declares that the entity authorized to audit the financial statements, which audited the annual financial statements of the company, was selected in accordance with the law and that this entity and the statutory auditors that performed this audit met the conditions for issuing an impartial and independent report on the audit of financial statements in accordance with the applicable regulations and professional standards.

The Management Board of Covenant.dev S.A.

Stanislaw Just

CEO

Warsaw, 10 March 2022

CHARACTERISTICS OF COVENANT'S BUSINESS AND RESOURCES. DEV

1.1. Covenant.dev's mission

The company's mission is to create extraordinary, original games that offer an unforgettable experience for players around the world.

1.2. Values

1. Highest quality work organization
2. Individualized working conditions
3. Continuous improvement of efficiency
4. Positive attitude

1.3. Operating model

The operating model is based on three pillars:

1. Internal prototyping
2. External production
3. Full control over all company activities

1.4. Products

The goal of the company is that the implemented games are distinguished by the following features:

1. Memorable gameplay
2. A catchy theme, innovative app support
3. Competitive price
4. High quality

In 2021, the company continued work on the game GORD (working title Wicked Dwelling), the trailer of which was presented in April 2021 and reached over one million views. In 2021, the company also conducted conceptual work on two working titles: PERUN and ROD.

1.5. Sale of products.

The company intends to sell products primarily in the digital channel on the STEAM platform, but also does not exclude the possibility of expanding sales to other platforms such as GOG, PlayStation Store or Microsoft Store in the future as well as the release of physical editions of its games.

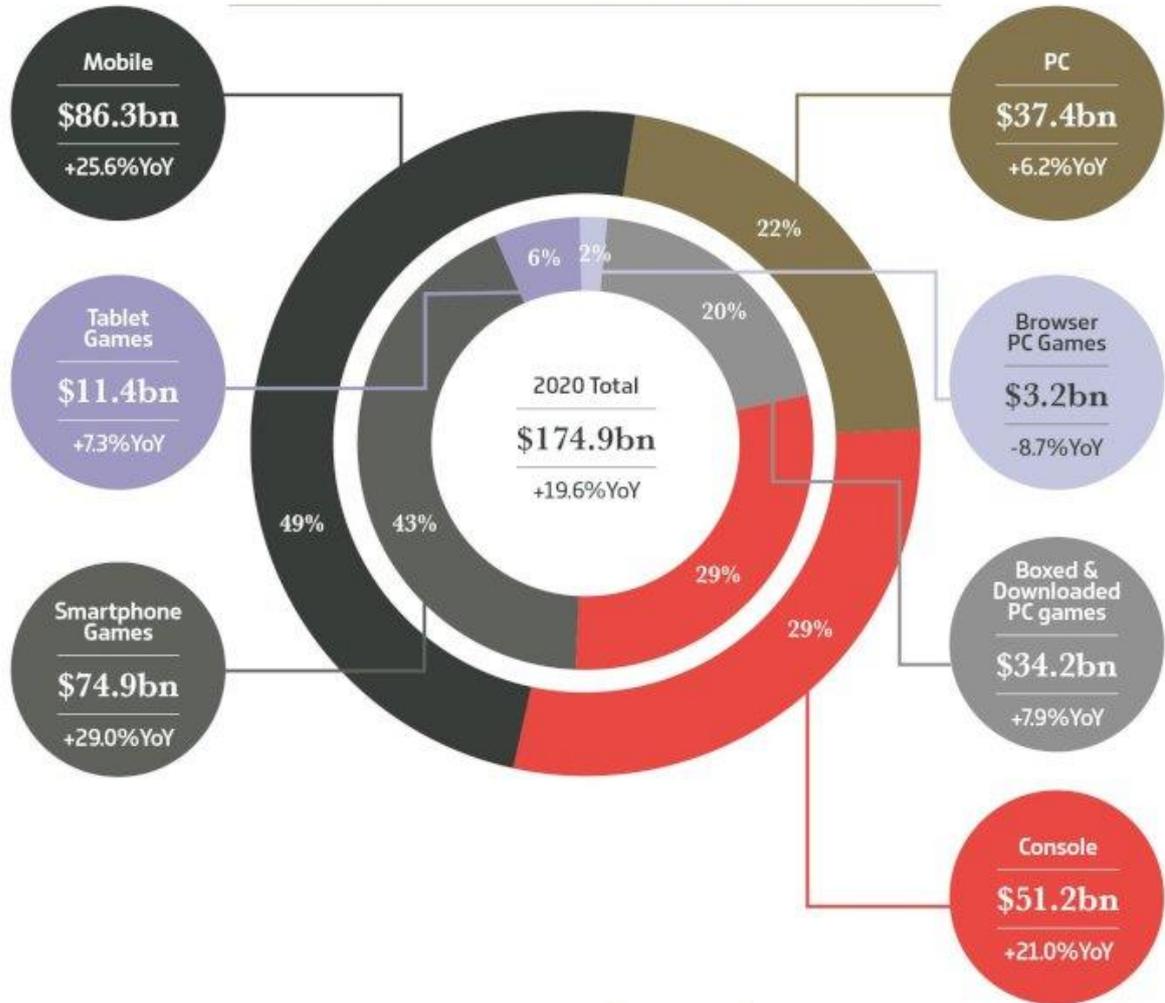
1.6. Description of the market on which the company operates

The video game market is the largest and most dynamic segment of the broader entertainment market (film, music, games), and its global value in 2020 was estimated at about \$175 billion, including the share of individual platforms: mobile: \$86.3 billion, personal computers: \$37.4 billion and consoles: \$51.2 billion.

(source: <https://www.gry-online.pl/newsroom/branza-gier-w-liczbach-podsumowanie-2021/zf1f062>)

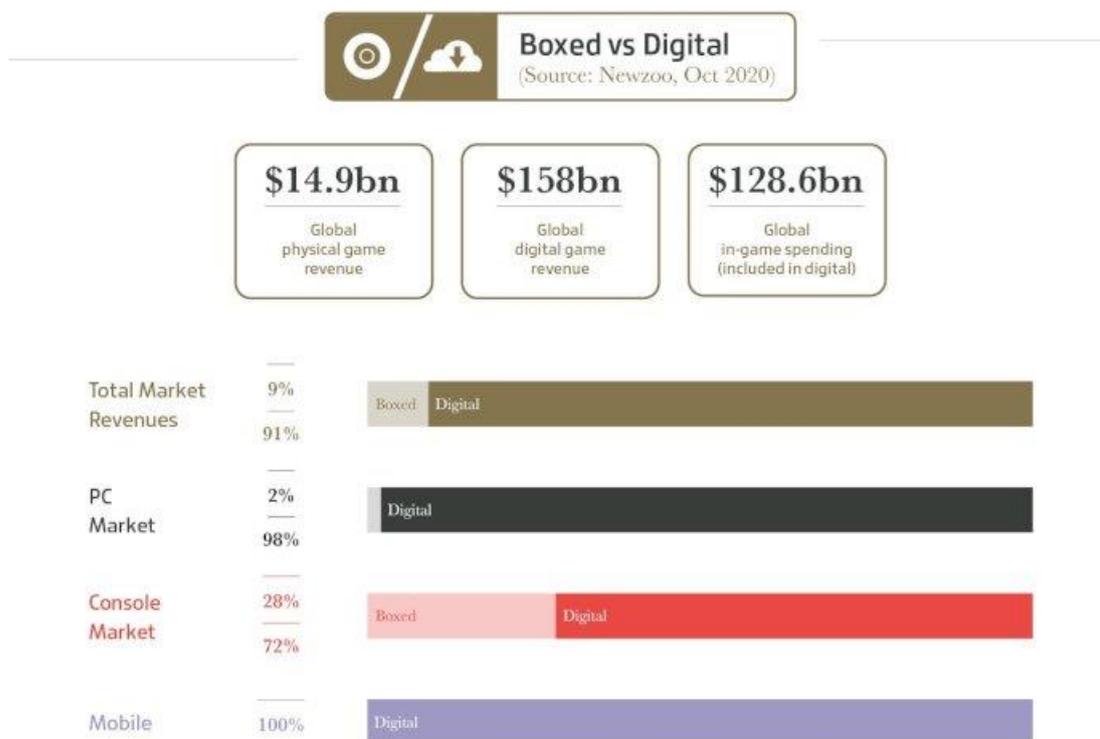
Global Games Market Value 2020

(Source: Newzoo 2020 Global Games Market Report (October Update))



Source: Newzoo 2020 Global Video Game Market Report (October Release)

1.7. Revenues from the sale of games divided by physical vs. digital media:



Source: Newzoo, October 2020

In the premium gaming segment, the largest market in the world is the United States, which will be the main target market for the company.

1.8. Understanding the working environment

Covenant.dev is the first computer game development studio in Poland to win the elite "Great Place to Work[®]" certificate for both 2020 and 2021. This award is not only proof of comfortable working conditions, but above all, of the trust that employees place in the company's management.



1.9. Software

The company creates products based on the **Unreal Engine 4** engine from EPIC Games. Audiokinetic's Wwise is used for the audio operation.

For handling SpeedTree, vegetation from Interactive Data Visualization.

For Houdini, physical simulations from SideFX.



1.10. Subsidiaries of Covenant.dev S.A.

As at December 31, 2021, Covenant.dev S.A. did not hold any shares in other entities.

1.11. Capital

- a) The share capital of Covenant.dev S.A. as at December 31, 2021 amounted to PLN 135,248.00 and was divided into 1,352,480 ordinary bearer shares with a nominal value of PLN 0.10 each:
- 1,000,000 series A shares,
 - 153,846 series B shares,
 - 164,834 series C shares,
 - 33,800 series D shares.

1.17. Information on the holding of shares in Covenant.dev S.A. by managers and supervisors

| Person | Function | As at 01.01.2021 | Increase in ownership in the period from 01.01.2021 to 12.31.2021 | Decrease in ownership in the period from 01.01.2021 to 12.31.2021 | As at 12.31.2021 |
|----------------|----------|------------------|---|---|------------------|
| Stanislaw Just | CCO | 800,000 | - | - | 800,000 |

| Person | Function | As at 01.01.2021 | Increase in ownership in the period from 01.01.2022 to the date of the submission of the report | Reduction of ownership in the period from 01.01.2022 to the date of the submission of the report | As at the date of the submission of the report |
|----------------|----------|------------------|---|--|--|
| Stanislaw Just | CCO | 800,000 | - | 13,187 | 786,813 |

1.18. Information on the employee share plan system

As at the date of the publication of the report, the Company does not have incentive systems for employees based on shares but intends to implement such a model.

CREDIT OBLIGATIONS

As at the date of the report, the company had no credit debt.

CHANGE IN THE COMPOSITION OF THE MANAGEMENT BOARD

In the reporting period, there were no changes in the composition of the Management Board or the Supervisory Board.

1.19. Research and Development

During the production process, the company implements many unusual and unique solutions regarding the gameplay elements, artificial intelligence, simulator work, character patterns, thereby creating the broadly understood elements of the virtual world.

The company intends to conduct research and development in the coming years.

2. OBJECTIVES AND RISKS OF THE COMPANY'S OPERATIONS

The company's goal is to provide players around the world with high-quality entertainment products for PCs and, in the future, for consoles. The company has extensive competences in game production that have been brought by members of the management team who have many years of experience in the production of games in the best Polish studios, which enables the implementation of the goal.

2.1. Significant risks and threats of the company

During the reporting period, the authorities empowered to control and supervise the activity did not find any violations of legal provisions that had a significant impact on its situation.

The company's Management Board did not publish any estimates or forecasts regarding the company's results.

In the opinion of the Management Board, there are no serious circumstances that would indicate the inability, or serious risks to the entity's ability to continue its activities in the foreseeable future.

In the opinion of the Management Board, there are no serious threats to the continuation of the company's operations.

The most important external risk factors from the company's point of view are as follows:

Risks associated with COVID-19.

Unlike other sectors of the economy that have been affected by COVID-19, the video game industry is much more resilient to the consequences of the pandemic.

Since the beginning of its existence, Covenant.dev S.A. has been using the remote work variant with the majority of its employees and associates and has the necessary tools and solutions to ensure high level of efficiency of operations in this model.

Due to social isolation, the interest in games as a form of spending time has increased, which has had a positive impact on the sector's revenues and, consequently, increased investor interest in the video game industry.

There are still some negative effects on the industry, especially in the area of major trade events, such as E3 and Gamescom, which have been cancelled or postponed.

In response to these limitations, in 2021, the company began activities and preparations for promotions, primarily in the digital channel, in cooperation with one of the global PR companies and a publisher that specializes in the promotion of video games. This cooperation has provided the company with access to and the interest of key journalists, influencers and a wide range of potential buyers.

Macroeconomic risks

The video game market on which Covenant.dev operates is characterized by high degree of competitiveness, rapid technological changes and changes in consumer interest. To reduce risk, the company has developed its business on a global scale, has monitored the actions of the competition and has built a diversified portfolio of games.

Competition risk

The company operates on the market of independent game producers, where many titles are released every day. The company effectively uses its most important assets: an experienced team that creates interesting and engaging games to stand out and offers products that also stand out in the quality of workmanship.

A flat organizational structure offers the advantage of flexibility and speed of action, and long-term planning enable many problems to be mitigated when creating a game.

Risk of changing trends

Covenant.dev S.A. operates in the area of new technologies and virtual entertainment, in which the product life cycle is relatively short. The risk of new solutions appearing on the market that will make the offered products cease to be attractive and that will not provide the desired revenues cannot be excluded. In order to reduce this risk, a strategy was adopted to create unique, high-quality games, which will be appreciated by buyers.

The main activities of the company in this direction are based on constantly monitoring the market in terms of the development of new technologies and analyzing the success of games from other manufacturers.

Risk of changing legal and tax regulations

A threat to the Company's operations may be very frequent changes in the legal and tax regulations in Poland and around the world. This applies to the regulations and interpretations of the provisions related to the protection of intellectual property, the capital market, labor and social security law, tax law or the regulations on commercial law. In some countries, the topic of banning the offering of violent video games has often been raised. Therefore, there is a risk that the regulations might be changed in one of the countries where the company offers its products, which could have a negative impact on the results of the company's operations. The company conducts activities that are aimed at eliminating risk through cooperation with specialized law and tax offices and tax inquiries.

Currency risk

In 2021, some of the company's costs were generated in PLN as well as in euros and US dollars. At the same time, the company generated revenues in euros and used natural hedging (revenues in euro vs. costs in currencies). At this stage of development and the scale of activity, there was no need to hedge against currency risk.

Inflation risk

Changes in the markets that are caused by the crisis generate the risk of a significant increase in the cost of game production. At the same time, a global price increase is also expected to cause an increase in the price of games. The company analyzes the current and future costs of the company's operations and the horizon of safe financing of operations on an ongoing basis and also makes decisions related to the increase in costs on an ongoing basis.

Risk factors directly related to the company's operations include:

Risk of losing key employees

The success of the company's operations depends in a very large part on the knowledge and experience of its employees. This is a characteristic feature of video game producers in whose activities intellectual values are a key element. It is difficult to employ qualified specialists in this industry. The recruitment of new employees is also associated with the period of acquainting them with their duties, which results in a temporary lower work efficiency. The company's strategy is to stand out from the competition by offering a very attractive package of employee benefits, a flexible work schedule, the possibility of remote work and the lack of the so-called crunch.

Risk of losing key customers

In the beginning, trading activity will be conducted primarily on the basis of the Steam platform on which about one billion user accounts are registered, which effectively diversifies the risk that is associated with the lack of access or the loss of some customers.

Supplier risks

The company has diversified the risk associated with suppliers by developing contacts with a large number of subcontracting companies, freelancers, suppliers of computer hardware, software on a global scale and using publicly available global resources.

Risks related to the implementation of development plans

Rising game production costs may increase the demand for external financing. Covenant.dev S.A. already generates revenues and has the ability to obtain funds from individual and institutional investors in the event of the necessity of requiring additional financing.

Risks associated with the products offered

The video game market is stimulated by the expectations associated with the debut of new products. There is a risk that some products will be completed later than planned. As a consequence, this may have a negative impact on the cash flows that are generated and the financial results in individual periods.

Internal factors that might require the release date of a game to be postponed are related to determining the time that is necessary to complete the production process of a game so that it meets the quality expectations. The release of a game that does not meet the high standards adopted by the Company could have a negative impact on sales revenues and could also weaken its image.

An external factor that might affect the decision to postpone the premiere of a game is the market situation, because an important element of the decision-making process is the release of a game at the moment where there is the least competition from other products. Another important factor in the timely preparation is the delays of ordered game components from suppliers.

An additional aspect is the risk of bringing a claim against the company in connection with the copyright of the games, to their elements, to the graphic signs or to the names that are reserved for individual products. In order to avoid losses in this respect, the company creates original projects, and the acquired assets and elements of the game are associated with the transfer of copyright each time.

Liquidity risk

The Company is exposed to liquidity risk. In the case of sales *via* the Steam platform and with the participation of the publisher, the risk of a loss of receivables is small. The Company receives funds from the agreement with the Publisher and is also able to raise funds in the form of an issue of shares.

Risk of the miscalculation of expenditures and future sales

The production, release and distribution of products requires that the future sales value of own products be estimated before the market release date of the product. In practice, there are significant differences between individual products in terms of the number of units that are sold and their ability to generate revenue. Based on many years of experience, as well as analyses that have been conducted by an independent research company, the company estimates the commercial potential of each title that is introduced in an offer; however, it is not possible to completely eliminate the risk of an incorrect estimation of the circulation and future sales.

Risk of delays in game production

Shifts and delays in the premieres of computer games are a normal phenomenon in the computer games market. The production of computer games is a complex and expensive process that is based largely on creative and artistic work, which means that there is a risk of incorrectly estimating the schedule of work on a specific title, the risk of technical problems related to the programming layer (e.g., failure of a game to meet quality requirements or problems with the correct operation of the game) or a lack of or insufficient level of financing.

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2.2. Assessment of the feasibility of implementing investment plans.

Covenant.dev has the ability to finance investment projects. In the financial year 2022, the company intends to maintain the current level of investment. Own funds will be used to finance investment projects.

3. RESULTS OF OPERATIONS AND FINANCIAL POSITION

3.1. Description of the significant achievements or failures of the company in 2021 and events that affected the financial results

In 2021, the Company focused primarily on the production of the GORD game.

In the reporting period, the company issued shares and increased the capital by issuing additional shares (more details in point 1.11) and also signed a publishing agreement for the GORD game with TEAM17 DIGITAL LIMITED.

3.2. Currency

The asset and liability items of the balance sheet have been converted at the average rate that were announced by the National Bank of Poland as at the last balance sheet date:

as at 12.31.2021 — 4.5994 PLN/EUR.

The items in the profit and loss account and the cash flow statement have been translated at the average rate, which was calculated as the arithmetic mean of the rates that were published by the National Bank of Poland on the last day of the month in a given period:

for 2021 – 4.5674 PLN/EUR.

| EUR/PLN EXCHANGE RATE | 2021 | 2020 |
|---|--------|--------|
| Asset and liability items of the balance sheet | 4.5994 | 4.6148 |
| Items in the income statement and the cash flow statement | 4.5674 | 4.4449 |

3.3. Selected financial data

| INCOME STATEMENT | 2021 | | 2020 | |
|--|--------------|--------------|--------------|--------------|
| | thousand PLN | thousand EUR | thousand PLN | thousand EUR |
| Net sales revenue (change in product status) | 2,526 | 553 | 2,026 | 456 |
| Profit (loss) on operating activities | -2,920 | -639 | -568 | -128 |
| Gross profit (loss) | -2 943, | -644 | -563 | -127 |
| Net profit (loss) | -2,853 | -625 | -458 | -103 |

Net revenues from the sales of the company in 2021 amounted to PLN 2,526 thousand, of which the company obtained revenues from the conclusion of the agreement with the publisher at the level of PLN 4 million, while the presented amount of revenues in the amount of PLN 2.5 million resulted from the release of the activated production costs of the GORD game.

In 2021, the company's net loss amounted to PLN 2,853 thousand, which resulted from the lack of any premieres in 2020 and 2021.

| BALANCE SHEET | 12.31.30201 | | 12.31.3020 | |
|-----------------------|--------------|--------------|--------------|--------------|
| | thousand PLN | thousand EUR | thousand PLN | thousand EUR |
| Assets | 409 | 89 | 234 | 51 |
| Current assets | 3,270 | 711 | 3,797 | 823 |
| Total assets | 3,679 | 800 | 4,031 | 873 |
| Equity | 3,098 | 674 | 3,722 | 807 |
| <i>Capital</i> | 135 | 29 | 132 | 29 |
| Liabilities | 497 | 108 | 242 | 52 |
| Long-term liabilities | 0 | 0 | 0 | 0 |
| Current liabilities | 497 | 108 | 242 | 52 |

The balance sheet total of Covenant.dev as at December 31, 2021, amounted to PLN 3.7 million.

Non-current assets in the balance sheet as at December 31, 2021, amounted to PLN 409 thousand and this is primarily the value, of purchased computer equipment

The company's current assets as at December 31, 2021, amounted to PLN 3.3 million, which consisted of cash at the level of approximately PLN 2 million and activated game production costs.

The company's equity as at December 31, 2021, amounted to PLN 3.1 million. The level of equity resulted from the issue of shares and the financial result.

The company's liabilities as at the balance sheet date amounted to PLN 497 thousand and were primarily the result of purchased services in December 2021.

| CASH FLOW STATEMENT | 2021 | | 2020 | |
|---|--------------|--------------|--------------|--------------|
| | thousand PLN | thousand EUR | thousand PLN | thousand EUR |
| Net cash flow from operating activities | -1 819, | -398 | -2,423 | -545 |

| | | | | |
|---|------------|-----------|--------------|------------|
| Net cash flow from investing activities | -118 | -26 | -140 | -31 |
| Net cash flow from financing activities | 2,229 | 488 | 4,233 | 952 |
| Net cash flow | 292 | 64 | 1,670 | 376 |

The company started 2021 with cash in the amount of PLN 1.67 million.

Net cash flow from operational activities amounted to PLN 1.8 million. The most important impact on the level of cash flow was the expenditure on game development.

Net cash flow from investing activities was negative and amounted to PLN -118 thousand. These were primarily expenses for the purchase of computer hardware and software.

Net cash flow from financing activities was positive and amounted to PLN 2.2 million, which resulted from the impact from the issue of shares.

Cash at the end of the reporting period amounted to PLN 1.96 million.

3.4. Product Sales Information

In 2021, the company did not sell products, but signed a publishing agreement for the GORD game, thanks to which, it received proceeds from the conclusion of this agreement and the implementation of subsequent stages of the game.

3.5. Information about markets with customer and supplier dependency

In 2021, the company did not sell products, but signed an agreement with the publisher for the sale and distribution of the GORD game and obtained revenues from this.

In 2021, no supplier exceeded 10% of the company's purchases.

3.6. Information on significant agreements for the business activity of the company, Covenant.dev.

1. Contracts relevant to the conducted business activity:

During the reporting period, the company concluded an agreement with TEAM17 DIGITAL LIMITED from the United Kingdom for the sale and distribution of GORD.

2. Insurance contracts

In the reporting period, Covenant.dev S.A. had the following insurance policies:

| Insurer Name | Subject matter and scope of insurance | Insurance period | Sum insured |
|-----------------|---|-------------------------|---------------|
| MetLife on Life | Individual term life insurance of the President of the Management Board | 06.02.2020 - 06.02.2040 | 1,500,000 PLN |

3. Agreements concluded between shareholders

The Management Board of Covenant.dev S.A. has no knowledge of any agreements that were concluded between the company's shareholders in 2021.

3.7. Agreements concluded between the Company and the management persons providing for compensation in the event of their resignation or dismissal from their position without a valid reason or when their dismissal or dismissal occurs due to the merger of the Company by acquisition.

No such agreements have been concluded.

3.8. Information on credit/loan agreements, including their maturities and surety and guarantee agreements of Covenant.dev S.A.

1. Loan and advance agreements

In 2021, the company did not take out any loans or advances.

2. Leasing agreements

As of December 31, 2021, Covenant.dev S.A. did not have any lease agreements.

3. Guarantee and surety agreements

As at December 31 2021, the company did not have loans, guarantees, sureties or other contingent liabilities of this type.

3.9. In the case of the issue of securities in the period covered by the financial statements, a description of the use of the proceeds of the issue

During the reporting period, the company issued series D and E shares, which were the subject of a private subscription. All offered shares, in issues, were subscribed and paid for. The proceeds from the issue amounted to a total of PLN 2.54 million. The issue of shares was primarily intended for the production of the GORD game and for the company's operational activities.

3.10. Information on loans granted by Covenant.dev S.A.

In 2021, the company did not grant any loans to employees or suppliers.

3.11. Information on significant transactions concluded by the Company or its subsidiary with related parties

In 2021, there were no significant transactions with related parties that deviated from market conditions

3.12. Indication of proceedings pending before a court, arbitration authority or public administration body

There were no disputes in 2021.

3.13. Information on contracts with an entity authorized to audit financial statements

Name of the entity: PRO AUDIT Kancelaria Biegłych Rewidentów Spółka z o.o.

4. Date of conclusion of the agreement on the audit of the separate financial statements for 2020 and 2021. – 12.29.2020
The agreement concerns the review and audit of the company's financial statements for 2020 and 2021.
5. The total value of remuneration due for the review and audit of the company's financial statements in 2021 – PLN 13,000 net.

6. PERSPECTIVE

In 2022, the company will continue the work on the GORD game, as well as start the conceptual work on further projects.

The company also intends to continue its activities in the field of improving the quality, comfort and efficiency of its structures. This will be achieved through improvements in the infrastructure, numerous automations and process optimizations, as well as improving the qualifications of each team member.

Covenant.dev intends to start marketing activities aimed at promoting not only the game, but also the entire studio among players, investors and other stakeholders in the near future.

Stanislaw Just
CEO

Warsaw, March 10, 2022