

Solid Clouds hf

Condensed
Interim Financial Statements June 30, 2022

kt: 600913-2550
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170 Seltjarnarnes

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Managing Director and Board of Directors' Report

Solid Clouds hf was founded in 2013. Its objectives are software development and the creation and marketing of computer games.

Net loss for the period January 1st to June 30, 2022, amounted to ISK 26.3 million. Total assets stood at ISK 1,315.1 million at the end of June 2022 and stockholder's equity amounted to ISK 1,272.9 million at the same time. There were 20 employees during the period 1 January to 30 June 2022.

The number of shareholders at the end of June 2022 was 1,594 compared to 1,587 at the beginning of the year. The following are the ten largest shareholders as of the end of June 2022:

Stefán Gunnarsson	10,45%
Kjölur fjárfestingarfélag ehf.	6,64%
Sigurður Arnljótsson	4,12%
Stefán Þór Björnsson	3,78%
Frigus ehf.	2,61%
S9 ehf.	1,94%
Tómas Sigurðsson	1,89%
Vilano Capital Sp.z.o.o.	1,73%
Kvika - innlend hlutabréf	1,56%
Eggert Árni Gíslason	1,32%
Other shareholders (1,584)	63,96%

The Company was able to reach a major development milestone in December 2021, after seven months of development, with a technical demo of its new game, Frontiers, which was hosted for 2,000 testers in Asia.

Solid Clouds hf passed another major milestone in June 2022 when Starborne Frontiers entered closed beta testing. Such testing is conducted with real users in a live environment with all the necessary infrastructure in place. This testing phase will produce valuable user feedback and engagement data to improve the game in preparation for its launch.

The Russo-Ukraine war has had immaterial impact on the Company in the first half of 2022.

Solid Clouds hf capitalizes development costs connected to the production of games and the Company's technology base, and these are amortized according to estimated lifetime. The Company has part of its development costs reimbursed from the Icelandic government through the reimbursement system for research and development costs (R&D costs).

Under Act No. 49/2022, the government has extended a special increase in the reimbursement of R&D costs from 20% to 35% for the operating years 2022 and 2023. Rannís, which is responsible for administering the reimbursements, has informed Solid Clouds hf that the reimbursement for R&D costs will come to ISK 105.6 million for the operating year 2021, and this will be paid in November 2022 after final approval from the tax authorities.

Brynjólfur Erlingsson was elected as an alternative board member at the last Annual General Meeting. He has extensive experience in the video game industry regarding the acquisition of new users and analysing their gaming behaviour. Brynjólfur is currently Head of Growth at Toca Boca. Previously, he worked at game companies such as Mojang, Paradox Interactive, Electronic Arts and CCP. Brynjólfur will be a special advisor for the Company regarding the analysis of user behaviour, growth of the user base and the development of monetization systems.

The Board of Directors and the Managing Director of Solid Clouds hf have today discussed the Interim Financial Statements of the Company for the period 1 January to 30 June 30 2022, and confirm them by means of their signatures.

Reykjavík, 25th August, 2022

Statement of Profit and Loss January 1st to June 30, 2022

	Note	2022 1.1. - 30.6.	2021 1.1. - 30.6.
Operating income			
Game revenues	5	6.681	10.556
Grants		4.902	658
		11.583	11.214
Operating expenses			
Development cost		2.499	8.928
Salaries and related expenditures		2.309	6.681
Operating expenses		14.728	3.650
		19.536	19.259
Operating loss before depreciation and financial inc. and expenses		(7.953)	(8.045)
Depreciation of development costs	6	(28.636)	(19.766)
Depreciation of right-of use assets	7	(3.117)	(2.991)
		(39.706)	(30.802)
Financial income and (expenses)			
Interest revenues		5.735	0
Interest expenses		(1.639)	(624)
Currency exchange difference		64	(1.297)
		4.160	(1.921)
Operating loss before income tax		(35.546)	(32.723)
Income tax	8	9.211	19.884
Net loss for the period		(26.335)	(12.839)

Statement of Financial Position June 30, 2022

	Note	30.6.2022	31.12.2021
Assets			
Development cost	6	842.279	690.347
Right-of-use assets	7	8.887	10.222
Deferred tax asset	8	70.063	60.852
		921.229	761.421
Non-current assets			
Receivables		3.757	2.204
Other receivables		5.337	3.343
Cash and cash equivalents		384.787	569.625
		393.881	575.172
Current assets			
		1.315.110	1.336.593
Total assets			
Equity			
Share capital		184.199	184.199
Share premium		641.911	641.911
Restricted equity		842.279	690.347
Share based payments		4.203	3.373
Accumulated deficit		(399.682)	(221.415)
		1.272.910	1.298.415
Total stockholders equity			
Non-current liabilities			
Lease liabilities	7	2.605	4.534
		2.605	4.534
Non-current liabilities			
Liabilities			
Lease liabilities	7	6.916	6.352
Accounts payable		5.031	2.450
Other payables		27.648	24.842
		39.595	33.644
Current liabilities			
		42.200	38.178
Total liabilities			
		1.315.110	1.336.593
Total equity and liabilities			

Statement of Changes in Equity June 30, 2022

	Share capital	Share premium	Restricted equity	Share-based payments	Accumul. deficit	Total Equity
Equity January 1st to June 30, 2022						
Equity december 31, 2021	184.199	641.911	690.347	3.373	(221.415)	1.298.415
Loss for the period					(26.335)	(26.335)
Restricted equity			151.932		(151.932)	0
Share based payments				830		830
Equity June 30, 2022	184.199	641.911	842.279	4.203	(399.682)	1.272.910
Equity January 1st to June 30, 2021						
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		(68.232)				(68.232)
Loss for the period					(12.839)	(12.839)
Restricted equity			83.390		(83.390)	0
Share based payments				2.092		2.092
Equity June 30, 2021	184.199	641.446	629.066	6.781	(138.907)	1.322.585

Statement of Cash Flows for January 1st to June 30, 2022

	Note	2022 1.1. - 30.6.	2021 1.1. - 30.6.
Operating activities			
Operating loss before financial income and expenses and income tax		(39.706)	(30.802)
Adjustments to reconcile results from operation to operating activities:			
Depreciation of development costs	6	28.636	19.766
Depreciation of right-of-use assets	7	3.117	2.991
Share based payments expensed		830	2.092
Working capital used in operating activities		(7.123)	(5.953)
Operating assets, changes		(3.457)	2.197
Operating liabilities, changes		5.387	14.682
Cash (used in) provided by operating activities before interests		(5.193)	10.926
Interest revenues received		5.735	0
Interest expenses paid		(1.639)	(624)
Net cash (used in) provided by operating activities		(1.097)	10.302
Investment activities			
Capitalized development cost	6	(180.568)	(103.156)
Investment activities		(180.568)	(103.156)
Financing activities			
Credit institutions, change		0	13.670
Paid-in share capital		0	42.746
Instalments of lease liabilities		(3.237)	(3.001)
Other short-term liabilities, change		0	(13)
Financing activities		(3.237)	53.401
Decrease of cash and cash equivalents		(184.902)	(39.453)
Cash and cash equivalents at beginning of year		569.625	58.963
Translation difference of cash and cash equivalents		64	(1.297)
Cash and cash equivalents at end of the period.....		384.787	18.213
Non cash investment and financing activities			
Receivables because of public offering		0	(725.000)
Share capital increase in public offering		0	725.000

Notes to the Condensed Interim 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. Statement of compliance with International Financial Reporting Standards

The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard IAS 34. The Condensed Interim Financial Statements of Solid Clouds hf do not include all of the information required in complete Financial Statements and should be read together with the Company's 2021 Financial Statements.

The Financial Statements for the year 2021 can be accessed at the Company or on its website, www.solidclouds.is.

The Interim Financial Statements were approved by the Board of Directors of Solid Clouds hf on August, 25th, 2022.

3. Significant accounting policies

The same accounting policies are followed in preparing the Interim Financial Statements as were used in preparing the Company's Financial Statements for 2021.

The Interim 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.

4. Estimates and judgement

The preparation of Interim Financial Statements in conformity with IFRS 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.

Notes continuing:

5. Geographical distribution of the Company's income

The following table shows the distribution of revenue from the sale of the game Starborne Sovereign Space in different countries in the first six months of 2022 with comparison to the first six months of 2021:

	1.1.2022 - 30.6.2022		1.1.2021 - 30.6.2021	
	Sale in ISK thousands	Percentate of sale	Sale in ISK thousands	Percentate of sale
USA	3.184	47,66%	4.581	43,40%
Canada	1.138	17,03%	1.024	9,70%
United Kingdom	560	8,38%	856	8,11%
Belgium	437	6,54%		
Australia	183	2,74%	334	3,16%
Romania	156	2,33%		
Sweden	143	2,14%	92	0,87%
Netherlands	92	1,38%	128	1,21%
France	84	1,26%	242	2,29%
Norway	83	1,24%		
Greece	80	1,20%	96	0,91%
Germany	63	0,94%	248	2,35%
Estonia	62	0,93%		
Mexico	49	0,73%		
Switzerland	49	0,73%		
Czech Republic			244	2,31%
Denmark			132	1,25%
Spain			102	0,97%
Finland			97	0,92%
Slovenia			87	0,82%
Taiwan			87	0,82%
35 / 60 other countries	318	4,76%	2.206	20,90%
Total game revenues	6.681	100,00%	10.556	100,00%

All income for the first six months of 2022 and 2021 is from the game Starborne Sovereign Space, which is the Company's first game. At the moment, the Company is not focusing on marketing efforts for that game, as the Company is focusing on the production of its other game, Frontiers.

Notes continuing:

6. Intangible assets

Development cost and depreciation are specified as follows:

	2022	2021
	1.1.-30.6.	1.1.-31.12.
Book value 1.1.	690.347	545.677
Capitalized development cost	180.568	286.280
Grants transferred to reduce development costs	0	(102.078)
Amortization of development cost	(28.636)	(39.532)
	<u>842.279</u>	<u>690.347</u>

7. Leases

The Statement of Financial Position shows the following amounts relating to leases:

	2022	2021
	1.1.-30.6.	1.1.-31.12.
<i>Right-of-use assets</i>		
Balance at the beginning of the year	10.222	13.428
Increase in right-of-use assets due to revaluation of lease liabilities	920	541
Capitalized right-of-use assets	862	2.274
Depreciation during the period	(3.117)	(6.021)
	<u>8.887</u>	<u>10.222</u>

30.6.2022 31.12.2021

Lease liabilities

Non-current	2.605	4.534
Current	6.916	6.352
	<u>9.521</u>	<u>10.886</u>

Annual maturity of non-current lease liabilities:

Between one and two years	6.916	6.352
Between two and three years	2.605	4.534
	<u>9.521</u>	<u>10.886</u>

	2022	2021
	1.1.-30.6.	1.1.-30.6.
The Statement of Profit and Loss shows the following amounts relating to leases:		
Depreciation of right-of-use assets (included in depreciation)	3.117	2.991
Interest expense (included in interest expenses)	249	329
	<u>3.366</u>	<u>3.320</u>

Notes continuing:

8. Income tax asset	2022	2021
Income tax asset is specified as follows:	1.1.-30.6.	1.1.-31.12.
Income tax asset at the end of the year	60.852	32.318
Income tax in the Statement of Profit and Loss	9.211	28.534
Income tax asset at the end of the period	<u>70.063</u>	<u>60.852</u>
Income tax asset is divided to the following items:	30.6.2022	31.12.2021
Accumulated tax loss	238.439	198.870
Development cost	(168.456)	(138.069)
Currency exchange difference	80	51
Income tax asset at the end of the period	<u>70.063</u>	<u>60.852</u>