



# **STARWARD INDUSTRIES**

## **THE TRANSLATION OF MANAGEMENT BOARD'S REPORT**

Starward Industries Spółka Akcyjna

For the financial year covering the period from January 1, 2021 to December 31, 2021.

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## 1. Basic data

<b>Company:</b>	<b>Starward Industries Spółka Akcyjna</b>
Country of registration:	Polska
Registered office:	ul. Przemysłowa 12, 30-701 Kraków, Polska
E-mail address:	info@starward.industries
Website:	www.starward.industries
Court of registry:	District Court for Kraków-Śródmieście in Kraków, 11 <sup>th</sup> Commercial Division of the National Court Register
Registration number (KRS):	0000750305
Business Register Number(REGC)	381277255
Tax ID (NIP):	6772437711

Starward Industries SA ("Company", "Starward Industries") was established on the basis of a notarial deed of 10 September 2018 (Journal No. 13664/2018) drawn up by lawyer notary Marcin Satora.

By decision of 27 September 2018 (file reference number KR.XI NS-REJ.KRS/28215/18/135) issued by the District Court for Kraków-Śródmieście in Kraków, the Company was registered in the Register of Entrepreneurs of the National Court Register under number 0000750305. The Company was established for an indefinite term.

**Please note that the following content of this document is not the Management's Board Report under the provisions of Annex 3 to the Alternative Trading System Regulations "Current and periodic information provided in the alternative trading system on the NewConnect market", but only translation of the Management's Board Report and has not been published in accordance to aforementioned regulations. Only the Management's Board Report in Polish language was published in the manner specified in the aforementioned regulations and is the only binding document providing the information specified in these regulations.**

## 2. Governing bodies

As on 31 December 2021 and as on the date of this report, the Management Board was composed of:

**Marek Markuszewski** - Chief Executive Officer  
**Dawid Sękowski** - Member of the Management Board  
**Daniel Betke** - Member of the Management Board  
**Mariusz Antkiewicz** - Member of the Management Board

As on 31 December 2021 and as on the date of this report, the Supervisory Board was composed of:

**Wojciech Weiss** - Chairman of the Supervisory Board  
**Michał Siennicki** - Member of the Supervisory Board, representative of individual investors  
**Marcin Górecki** - Member of the Supervisory Board  
**Michał Pietrzkiwicz** - Member of the Supervisory Board  
**Marta Adamska** - Member of the Supervisory Board

On 26 March 2021, the Company received from Ms. Katarzyna Pióro her resignation from the position of Supervisory Board Member as of 26 March 2021. As the reason for her resignation, Ms Katarzyna Pióro indicated the fact that the Company had excellent communication with the financial market and that the ongoing development process was proceeding smoothly and was being transparently reported to shareholders, all of which she considered a fulfilment of her mission as a member of the supervisory body of Starward Industries. She further indicated that she now intended to devote herself fully to the development of Brand&Sell on the management board of which she sat.

At the same time, on 26 March 2021, the remaining Members of the Supervisory Board of the Company, following the resignation of Ms

Katarzyna Pióro from the position of Supervisory Board Member, in order for the Supervisory Board to regain, as soon as possible, the minimum number of Members required under the respective regulations, taking advantage of the right provided for in the Deed of Association of the Company, appointed Mr Wojciech Weiss as Supervisory Board Member by co-option.

On 16 June 2021 the General Meeting of Shareholders appointed for a new three-year term of office the existing Supervisory Board members: Mr Wojciech Weiss, Mr Michał Siennicki, Mr Marcin Górecki, and two new Supervisory Board members: Ms Marta Adamska and Mr Michał Pietrzkiwicz.

At the meeting, in accordance with its Deed of Association, the Supervisory Board elected Wojciech Weiss as Chairman of the Supervisory Board and Michał Siennicki as Vice Chairman.

**Wojciech Weiss** used to work as an advisor to Fortune 500 companies and has managerial experience gained in international corporations. He is an active investor on WSE, NewConnect, and international markets, as well as co-founder of Starward Industries. He supports the Company in the area of corporate and managerial issues.

**Marta Adamska** is a business development specialist with six years of experience in the gaming industry gained at GOG.com, previously an analyst in the commercial real estate industry. She holds a Master's degree in Real Estate Investment and Econometrics from CASS Business School in London. She supports the Company with her supervisory expertise, in particular in the areas of product quality, business development, marketing strategy, partner agreements,

## MANAGEMENT BOARD'S REPORT

establishing and maintaining relationships with key "players" in the market.

**Michał Pietrzakiewicz** is a CFA holder, investment adviser, ACCA member, and Polish statutory auditor. An individual investor for the last 15 years. In the past, he was the financial director of a shared services centre and the director of the internal audit office of an asset management company. He supports the Company with his supervisory expertise, in particular in the areas of corporate governance and finance.

### 3. Description of business

**Starward Industries** is an independent developer of **AA+** games designed for personal computers as well as PlayStation, Xbox and Nintendo Switch game consoles, created by a team with many years' experience working for companies such as CD Projekt Red, Reality Pump, Techland, and led by Marek Markuszewski – Chief Executive Officer and originator of the gamedev studio.

Marek Markuszewski gained experience working for the Krakow branch of CD Projekt RED, which he also co-founded. After resigning as Senior Producer, he dedicated himself to a new project which formed the core of Starward Industries SA. Within a year, he recruited talented and experienced gamedev persons, purchased a license to adapt an outstanding Sci-Fi novel and created a detailed business plan for the project. In June 2018, he met with a group of individual investors who provided the first round of financing and started working together to develop the studio concept, resulting in a company with serious ambitions and long-term operational and financial plans. The crowning of the work took place on **10 September 2018** when a joint-stock company under the current name was set up in Kraków and



# THE INVINCIBLE

A videogame by Starward Industries



registered in the National Court Register on 27 September 2018. In October the same year, it began operating as a full team. At the beginning of 2020, Starward Industries was preparing to debut on the NewConnect, an alternative trading system, and on 19 August 2020 the company was listed at NewConnect. This event completed the process of **going public**.

As of the date of this report, the Company is in the process of creating a **role-playing game** based on the novel "The Invincible" by **Stanisław Lem** – the famous Polish writer, whose books have sold in tens of millions of copies around the world. Starward Industries has acquired an exclusive license to produce a video game based on the novel "The Invincible" by Stanisław Lem, valid until 5 October 2023. The Company intends to release the first game well before the license term expires.

The company is a pioneer in the computer adaptation of Stanisław Lem's works. At the same time, it does not duplicate any existing ideas related to the writer's work, but instead creates its original vision. Starward Industries is aware that the goal it has set itself is ambitious, therefore it regularly consults its creative decisions with experts in Lem's work. By the date of this report, the Company had announced its debut production, which was met with enthusiastic reception internationally. At the same time, the Company is trying to keep up-to-date with the latest trends by participating in conferences and shows, specialist forums and analyzing newly emerging games. Starward Industries also puts a lot of value on the professional development of team members, keeping informed of new emerging technologies and trends.

## 4. Significant events in the completed financial year

### January 2021:

- the Company's development team completed work on the next stage of the video game (**MS-11**). One of the deliverables of that stage was the development of the basic story structure of the game with all the game choices and endings. An interactive scenario summary was developed to test the game choices,
- **19 January 2021**, the Company has signed a licensing agreement to sell high quality large format prints featuring promotional images from the game The Invincible on **Astrography.com**.

### February 2021:

- **interactive scenario tests** were carried out, analysed through Game Analytics (recording the choices of all sessions) and summarised by the completion of questionnaires by a selected group of consultants,
- The National Depository for Securities (Krajowy Depozyt Papierów Wartościowych) passed a resolution on **conditional registration of series A, B, C, D, E and F shares**, within 3 days of the National Depository's receipt of the decision to designate the first day of trading in the NewConnect alternative trading system operated by the Stock Exchange,

- The Company's Management Board adopted a resolution to **increase** the share capital within the framework of the authorised capital and to make an offer to subscribe for series I shares. The offer to subscribe for shares was addressed to a single entity - **Acion Master Fund**, managed by Acion Partners Limited, a foreign investment institution backed by **KKR**, a global investment firm and private equity pioneer,
- **on 24 February 2021**, the Company completed a private placement addressed to a foreign institutional investor. The fund managed by **Acion Partners subscribed for the entire new issue worth PLN 2.7 million**. Both parties signed a share subscription agreement and the payment was credited to Starward Industries' account. The company announced that it is considering using the raised funds in the following areas:
  - increasing the game's marketing budget,
  - increasing the development budget for the game,
  - carrying out conceptual work on the next game prior to the release of The Invincible,
  - acquiring copyrights or licenses to new works for adaptation,
- In late 2020 / early 2021, a **preliminary version of the marketing strategy** was developed internally and reviewed by an independent expert at a formal Supervisory Board meeting.

- the next production milestone (**MS-12**) has been reached. In this milestone, the team has completed the creation of all key areas of the game (levels) and key objects (robots, ships, vehicles).

**March 2021:**

- **On 9 March 2021**, the board of the Warsaw Stock Exchange adopted a resolution designating 11 March 2021 as the first day of trading in the alternative trading system on the NewConnect market for the Company's series A, B, C, D, E and F ordinary bearer shares,
- **on 11 March 2021**, the first day of trading on the ASO NewConnect of ordinary bearer shares of series A, B, C, D, E and F took place,
- **26 March 2021**, the Company received from Ms. Katarzyna Pióro her resignation as a Member of the Supervisory Board with effect from 26 March 2021,
- **on 26 March 2021**, the remaining Members of the Supervisory Board of the Company, following the resignation of Ms Katarzyna Pióro from the position of Member of the Supervisory Board of the Company, in order for the Supervisory Board to regain the minimum number of Members required by the regulations as soon as possible, using the power provided for in the Articles of Association of the Company, by way of co-option, appointed Mr Wojciech Weiss to the position of Member of the Supervisory Board,

- **On March 31, 2021**, the development team completed work on the next stage of Invincible (**MS-13**), in which, among other things, the simulation model of movement in the spacesuit was expanded, all elements of the character's equipment were brought to a releasable state, and numerous scenes and game fragments were added.

**April 2021:**

- **On April 8, 2021**, the Company decided to change the production schedule of the game "Invincible". The change concerned moving the game's release from the second half of 2021 to 2022. The Company decided to increase the production budget in order to expand the game's content while maintaining the very high quality of the product and to increase the marketing budget in order to reach a wider audience. Additional funds obtained from the Series I issue addressed to an institutional investor from Hong Kong made it possible to expand the creative team, outsource additional work to external contractors, conduct more quality tests, increase the number of languages in which the game will be available and increase expenditures on marketing activities, which will result in a longer production period,
- on the day following the announcement of the change in the game production schedule, i.e. **9 April 2021**, members of the Company's Management Board - Marek Markuszewski and Dawid Sękowski - took part in the VI edition of the online conference Gaming on the Stock Exchange in order, among other things, to provide a broader context for a significant decision in the history of the Company. As part of the meeting, recent events in the life of the Company were



discussed, as well as plans to use the funds raised from the issue directed to an investment fund managed by Acion Partners Limited and plans for the near future. Representatives of the Company also took part in a chat with the participants of the meeting. The recording of the conference is available on the financial portal [Stockwatch.pl](https://stockwatch.pl),

- **on April 10, 2021**, members of the Company's Management Board - Marek Markuszewski and Dawid Sękowski participated in the ninth edition of the Książęca Street online event, in order to discuss a very important decision (modification of the game production schedule), present the company and answer questions asked by the event's participants in the form of a chat. A transcript of the event is available at [longterm.pl](https://longterm.pl),
- **on 19 April 2021**, the National Depository for Securities adopted a resolution on the conditional registration of series I ordinary bearer shares. As a condition for registration, it was stipulated that the Stock Exchange would designate the first day of trading in the alternative trading system in which the company's other shares (series A, B, C, D, E, F, G and H) are listed,
- **on 26 April 2021**, the board of the Warsaw Stock Exchange adopted a resolution on the introduction of Series I ordinary bearer shares to the alternative trading system NewConnect,
- **on 30 April 2021**, the company signed an agreement with Epic Games to distribute The Invincible on the Epic Games Store.

**May 2021:**

- **on 4 May 2021**, the board of the Warsaw Stock Exchange adopted a resolution designating 7 May 2021 as the first day of trading in the alternative trading system on the NewConnect market for Series I ordinary bearer shares,
- **on 7 May 2021**, the first day of trading on the NewConnect market for Series I ordinary bearer shares took place,
- **on 8 May 2021**, the development team completed work on the next phase of Invincible (**MS-14**), which, among other things, completed a proprietary system for handling in-game dialogue, with support for multiple languages, and assignment to audio tracks with recordings of actors,
- **on 17 May 2021**, the Company made Starward Industries' Public Presentation available on its website. The document presents all key areas of the Company's operations: production and production assumptions for the title "The Invincible", members of the creative and corporate team, financing scheme, marketing campaign and future production plans of the Company. The presentation is available in the Investor Relations section, under [Documents](#),
- on 28 May 2021, the [astrography.com](https://astrography.com) shop began selling high-quality large-format prints with promotional images from "**The Invincible**".

**June 2021:**

- **on 16 June 2021**, the Annual General Meeting of the Company was held, at which 60.49% of the Company's share capital was

represented and the mandate of the members of the Supervisory Board of the first term of office expired. The Annual General Meeting appointed for a new three-year term of office the existing Supervisory Board members: Wojciech Weiss, Michał Siennicki, Marcin Górecki and two new Supervisory Board members: Marta Adamska and Michał Pietrzkiwicz. Furthermore, the Ordinary General Meeting adopted resolutions on approving reports, granting the vote of acceptance and covering losses, as well as amending the Articles of Association in order to adjust their content to the previously made changes in the type of shares made at the shareholders' request in connection with the introduction of shares to trading (conversion of registered shares into bearer shares),

- **on 17 June 2021**, the team completed work on the next stage of game production (**MS-15**). In the process of horizontally expanding the game, numerous filler scenes have been added to the game in preparation for the closure of the full Pre-Alpha, or fully walkthrough game.

**July 2021:**

- **on 9 July 2021**, the Company announced a call for closed play tests,
- **on 28 July 2021**, the next phase (**MS-16**) was completed, bringing the game to **Pre-Alpha** level, implementing the full story structure developed in January (MS-11).

**August 2021:**

- **on 4 August 2021**, full planning of all milestones up to the game's release and a detailed plan for the upcoming production phase was completed. From this point on, the team adopted a more classical naming scheme for production milestones, differentiating between their size: large milestones (Milestones), consisting of shorter Sprints.

**September 2021:**

- **on 12 - 14 September 2021**, the Company took part as a technology partner in the Megabit Bomb festival, organised in Kraków to celebrate the 100th anniversary of the birth of writer Stanisław Lem. At a dedicated stand, representatives of Starward Industries presented assets from "The Invincible", based on the novel of the same title. The company has also prepared original gadgets from the game, which were distributed during mini competitions held during the event.

The main objectives of participating in the event were:

- increasing the studio's brand recognition beyond the main target group,
- verification of reception of prepared game materials by people very familiar with Stanisław Lem's works,
- preparation for participation in industry events in a physical form (with a stand),
- clear presence at an important event dedicated to the writer.

The Company has prepared a summary of its participation in the event in the form of a short [video](#), which is available on the Company's YouTube channel,

- **15 September 2021**, the Company launched its first product website available at [www.InvincibleTheGame.com](http://www.InvincibleTheGame.com). Visitors accessing the website were able to systematically follow the stages in the interstellar ship journey from Earth to the planet Regis III, where the action of "The Invincible" takes place. The culmination of the landing on Regis III was the display of the game's Teaser Trailer to the user (on 14 October). This page is currently available at: [www.journey.invinciblethegame.com](http://www.journey.invinciblethegame.com),
- **on 17 September 2021**, the production team completed milestone MS17S1 - the first of four Sprints in Milestone 17 aimed at achieving Alpha level.

**October 2021:**

- **14 October 2021**, the Company has unveiled the first, cinematic trailer for The Invincible. Until the release of the video, those following the work on The Invincible could only see static screenshots, concept art, etc. The new footage revealed elements of the game in a much broader scope, and the purpose of making it public was to increase interest in the gaming community and industry media. The video shows, among other things:
  - animations and character models (human and humanoid robot),
  - dialogues and acting,
  - first-person animations including movement and helmet effects

- a new wide shot environmental section with dynamic particle effects,
- new objects (field base),
- operation of one of the handheld devices (Locator),
- basic plot elements and threads - main characters (Yasna and Novik), conflicts and dynamics between them.

Because of its form, the trailer (Teaser Trailer) was intended to delight in quality and intrigue (raise questions, speculations). Subsequent materials will be geared to start answering questions: who are we, what is our mission and what are we doing on the planet Regis III and how will we play the game. About a month after the publication of the trailer, the video has been viewed **more than 530 thousand times** (on the company's YouTube channel). The number of positive reviews **exceeded 10 thousand**, which is **about 97% of all reviews**. The film had more than 650 comments, the majority of which were clearly positive. As of the date of the annual report for 2021, the number of views of the video was over 870 thousand, the number of likes exceeded 13 thousand and the number of comments was almost 900.

The main part of the video (game footage) has a very high retention rate - viewers stop watching the video at the beginning or end panels, while the change in the middle part is 2% ("flat graph"). YouTube classified the entire middle section (from 0:11 to 1:35) as a so-called Top Moment. Videos posted on social media channels, as expected and in line with the nature of these media (screen scrolling), had worse results - about 350,000 views of at least three seconds, but only 30,000 of more than one minute. According to a report received from a PR agency, which mediates the distribution

of press materials, the mention of the publication of the trailer appeared on industry portals with a total number of monthly visits of 20 billion (for comparison, this level during the announcement of the game in September 2020 was 8.5 billion). The mention appeared on more than 100 media outlets, including several major portals i.e.

- ScreenRant.com: 110 mln (visits/month as per Similarweb.com),
  - GameRant.com: 25 mln,
  - PCGamer.com: 25 mln,
  - TheGamer.com: 21 mln,
  - GamePressure: 11 mln,
  - VG47.com: 11 mln,
  - gameinformer.com: 3,4 mln.
- **October 14, 2021**, the Company has launched a second website at the same address [www.InvincibleTheGame.com](http://www.InvincibleTheGame.com) (replacing the previous one) where, from a first-person view and in a comic book aesthetic, visitors can start exploring the planet Regis III and browse the game content published by the Company so far, i.e. the trailer, a compilation of several tracks from the soundtrack, screenshots and graphics published on the blog and social media channels. The website is updated regularly and encourages to follow new publications and stories that introduce the player to the game and intertwine with its main storyline,
  - **on 20 October 2021**, the production team completed work on MS17S2 (the second Sprint in Milestone 17 Alpha),

- **from 17 October 2021 to 28 October 2021**, a test advertising campaign was implemented on the Company's social channels (YouTube, Twitter, Facebook, Instagram, Reddit, TikTok) and Google Display, Google Search. A few days after the publication of the trailer, the Company launched (on a small scale) an advertising campaign together with an external advertising agency. The aim of the campaign was to test the effectiveness of channels for reaching the recipients of "The Invincible" and to verify the assumptions and target groups specified in the marketing plan. Conclusions from the conducted tests have already been used by the Company in the next stage of the advertising campaign carried out in the first quarter of 2022 and will be used in future, much larger-scale marketing activities, directing the message to identified target groups which obtained the most effective results in terms of parameters such as: click-through rate (CTR), costs and conversion.

#### November 2021:

- **on November 8, 2021**, [the product page of the "The Invincible" game](#) was published in the GOG.com shop. At the same time the game was included in the list of titles promoted as part of the "Made in Poland" action. This is the second shop, after Steam, where the product page of the "The Invincible" game was published. The next planned shops are: Epic Games Store, Xbox Games Store and PlayStation Store,

- **on 23 November 2021**, new promotional material for the game was released at the Golden Joystick Awards (GJA) gala. This was the first footage in the series: The Invincible - Chronicles, in which studio representatives talk about the game, showcasing previously published and new gameplay snippets, as well as showing shots of the creative process. The Company's film was presented as the last promotional material, in the final part of the whole gala. The day after the GJA gala, on the Steam platform, The Invincible was featured on the dedicated [Golden Joystick Awards 2021](#) page (available on the shop's homepage), among other games promoted during the event. The film [The Invincible - Chronicles vol. 1](#) was also published on the Company's YouTube channel following the expiry of the exclusivity period for GJA. As of the date of publication of the 2021 annual report, the film had been viewed **250,000** times. As a result of the release of the

teaser and the presence on GJA, the Steam community grew by over 3,600 people, the total number of additions to the game's Steam wishlist more than doubled, and the game itself saw a promotion from position 380 to position 179 on the Steam Global Wishlist. The company is still ahead of the release of the main promotional material for the “The Invincible” game.

#### **December 2021:**

- **on 15 December 2021**, the production team completed work on the **Alpha** version of the game (**MS-17**) which enabled a general production review of the project and planning of the scope of work for the last major phase, the Beta version..



### **New recruitments:**

**In 2021**, the team added 17 new people, thus closing the recruitment planned for this year. People have joined the team in the following positions:

- Writer
- Marketing Manager
- Environment Artist
- QA Analyst
- Operating Officer
- Animator
- Junior Developer
- Programmer
- VFX Artist
- Unreal Programmer (three persons)
- Level Designer
- Sound Designer
- Producer
- IT Specialist
- 2D Artist

In the near future, the Company plans to expand its marketing team with a person supporting community building around the game in production.

### **Participation in trade fairs, conferences and other industry events:**

- participation in the 6th edition of the Gaming on the Stock Exchange conference,
- participation in the discussion panel at the 7th edition of the Gaming na Giełdzie conference,
- participation, as a technological partner, in the Megabit Bomb festival organised on the occasion of the 100th birthday anniversary of Stanisław Lem,

### **Participation in events for retail investors:**

- Participation in the Książęca Street 9 online conference.

## 5. Significant events after the end of the financial year

### January 2022:

- **In January 2022**, the production team began work on the Beta version of the game. As part of the work on this version:
  - the team has begun testing the game in parallel on PC and consoles in preparation for release on all target platforms (the production team has the hardware (devkits) and appropriate licenses to release the game on Xbox Series X|S and PlayStation 5),
  - the team has started the process of recording the English version of the dialogue lines for the game,
  - the team has started Motion Capture sessions for large animation scenes.

The results of this stage, in the form of, among other things, a playable version of the game in close to final quality, will be presented to partners with whom the Company is currently holding talks. Upon completion of these discussions the Company will be able to decide on the publishing model, i.e. release the game on its own or together with a publisher,

- **on 27 January 2022**, an update was released on <https://invinciblethegame.com/> introducing, among other things, a new scene from the game world,

- **on 28 January 2022**, [the product page of the "The Invincible" game](#) appeared on the Epic Games Store. This is the third shop (after Steam and GOG) where the game will be sold on the PC platform.

### March 2022:

- **on 15 March 2022**, the production team completed work - on the first stage of the Beta version of the game (**MS-18**). The result of this work in the form of a playable version of the game was made available to:
  - Industry consultants - to gather comments, particularly on story direction, dialogue quality and acting,
  - Publishers - for general product comments and review of publishing options,
  - Retail platform owners for feedback and review of distribution options and to support in-store visibility of the game,
  - Selected news media for a silent review,

In the next steps, the Company plans to make the game available to a selected group of players in closed tests in order to collect additional ratings and opinions directly from the selected target group.

## 6. Anticipated development of the Company

The Company adopted a strategy of building virtual worlds under umbrella brands, thanks to which promotional outlays will support sales of not one but a whole series of games under a common brand. While promoting and marketing the first game, the Company intends to use a communication bridge based on the image of Stanisław Lem as an internationally recognised author of science fiction novels. This brand opens the door both to the existing fandom of the novels and to opinion leaders around the world, as well as to a number of specialist media and cultural, artistic and scientific institutions. On this basis, the Company will build a marketing communication using, among other things, feedback and recommendations from both professionals and influencers, backed by a substantial cash marketing budget to achieve maximum reach when the first game is released. In order to find its own place in the market, defensible in the long term, the Company has relied on unique values, which it has built into its business and product strategy:

- creation of virtual worlds that go beyond a single product and are based on compelling, engaging gameplay experiences,
- high intellectual value embedded in the culture, which in the case of the first game is the presentation of the original, vision based on an exclusive licence for a literary work by a recognised writer - Stanisław Lem.

The Company's long-term plan of action is the production of subsequent games in thematic series, located in virtual worlds created and developed by the Company. This strategy is intended to ensure revenue stability and continuity of operations. Thanks to this, promotional outlays and marketing activities will support sales of not one but an entire series of games under a common brand and additionally, created characters, motifs and stories will have a chance over time to permeate other branches of culture and entertainment.

The Company plans to attend a selected investor event in the second quarter of 2022 to discuss the events of the reported period and future plans.



## 7. Major achievements in research and development

In the reporting period, the Company did not engage in research and development works.

## 8. Shareholders

The table below presents the shareholding structure as of the balance sheet date, with an indication of shareholders holding at least 5% of votes at the Annual General Meeting, as well as members of the Management Board and Supervisory Board.

Data related to Shareholders' Structure of Starward Industries SA are presented according to the best knowledge of the Company, based on the information provided by shareholders, and may include transactions that did not entail reporting obligations.



NO.	SHAREHOLDER	SHARES (NO.)	SHARES (%)	VOTES (NO.)	VOTES (%)
1	Marek Markuszewski*	380 002	20,26%	380 002	20,26%
2	Kamil Klinowski	125 127	6,67%	125 127	6,67%
3	Marcin Przasnyski	117 236	6,25%	117 236	6,25%
4	Chiswick Creative Ventures Ltd.	101 007	5,38%	101 007	5,38%
5	Sebastian Służka	100 000	5,33%	100 000	5,33%
6	Daniel Betke*	100 000	5,33%	100 000	5,33%
7	Dawid Sękowski*	84 701	4,51%	84 701	4,51%
8	Mariusz Antkiewicz*	50 000	2,67%	50 000	2,67%
9	Acion Partners Ltd.	27 995	1,49%	27 995	1,49%
10	Wojciech Weiss**	9 456	0,50%	9 456	0,50%
11	Michał Siennicki**	3 000	0,16%	3 000	0,16%
12	Workers and coworkers	122 225	6,52%	122 225	6,52%
13	Other shareholders <5%	655 246	34,93%	655 246	34,93%
	<b>RAZEM</b>	<b>1 875 995</b>	<b>100,00%</b>	<b>1 875 995</b>	<b>100,00%</b>

\* Management Board / \*\* Supervisory Board

## 9. Information on lock-up agreements

To the best of the Management Board's knowledge, as at the date of this report, the Company's existing shareholders were, in significant part, parties to share lock-up agreements. A total of 818,001 shares in the Company (part of series A shares for which the lock-up did not expire on 19 August 2021 and 19 February 2022 and all series B and F shares), representing 43.60% of the share capital and total number of votes at the AGM (the "Lock-up Agreement"), are subject to the lock-up.

The Lock-up Agreements currently in force have been entered into for a period from the date of execution until the expiry of the respective periods calculated from the date of the official release of the Company's first game "The Invincible".

## 10. Current and projected financial situation

As of 31 December 2021, the Company's balance sheet sum amounts to PLN 8 265 291,60, including PLN 7 283 062,13.

The net loss in the reporting period amounted to PLN 1 998 906,35. The reported result includes deferred income tax and reflects operating activities that generate costs for game production, office equipment and maintenance, subcontracting services, costs related to share issue services and remuneration of employees and associates in the total amount of PLN 3 922 588,52. On the other hand, the Company generated an increase in the amount of PLN 2 130 039,09 on the inventories side.

The reported accounting loss is consistent with the Company's budget assumptions and is covered by the implementation of the game production plan. Total expenditures incurred on the production of the studio's first game "The Invincible" until the end of the reporting period were recognised on the assets side in the "Inventories" item at PLN 5,132,231.87.

The Company has made a selection of publishers and in the next steps intends to finalize talks on a publishing contract with the selected publisher. Cooperation with the selected partner will cover the area of quality testing, localization of the game, promotion and worldwide distribution during the sales period of several years and direct investment in the production of the game.

After starting the sales of the game, the Company expects to significantly increase its revenues, which in its opinion will positively affect the value of the Company and will enable its further development.

ASSETS (PLN)	AS OF 31 December 2021	AS OF 31 December 2020
Fixed assets	209 747,55	158 136,81
Assets	8 055 544,05	6 891 784,86
Inventories	5 132 231,87	3 002 192,78
Short-term receivables	391 458,83	169 905,76
Short-term investments	2 463 765,62	3 687 957,39
Short-term prepayments and accruals	68 087,73	31 728,93
<b>Total</b>	<b>8 265 291,60</b>	<b>7 049 921,67</b>

LIABILITIES (PLN)	AS OF 31 December 2021	AS OF 31 DECEMBER 2020
Equity capital	7 283 062,13	6 566 453,48
Liabilities and provisions for liabilities	982 229,47	483 468,19
Provisions for liabilities	594 168,23	402 649,83
Long-term liabilities	0,00	0,00
Current liabilities	388 061,24	80 818,36
Prepayments and deferrals	0,00	0,00
<b>Total</b>	<b>8 265 291,60</b>	<b>7 049 921,67</b>

## 11. Own shares, branches, financial instruments

As of the date of this report, Starward Industries did not hold any own shares or acquire any own shares during the reporting period. The company has no branches or financial instruments.

## 12. Employment information

As at the end of the fourth quarter of 2021, calculated on a full-time basis within the definition of the Labour Code Act, The company employed 1 and 3/4 persons. At the same time, Starward Industries cooperates on a permanent basis with 34 persons who provide services to the Company on the basis of civil law contracts.

## 13. Risk factors and description of potential dangers

### 13.1. Main risks identified by the Company

The key risk related to Starward Industries operations is the production of the first video game at a level that is unsatisfactory for the market and consequently, generating insufficient revenues from game sales. The quality of the produced game depends on the team involvement, which may, for many reasons, may be too low to meet the goals, e.g. due to competing job offers, illness, accidents, delays in delivery. The management board has taken appropriate measures to ensure the stability of the team's work, in particular by adopting a model of share ownership by all team members, which translates into joint success and thus improved commitment compared to workers who would not have shares in the Company's ownership. The sales success is additionally related to the selected publishing model, a successful marketing campaign (which carries the risk of negative reception of the retro-futuristic style), as well as the possible

emergence of competitive products. Sales revenues are also at risk due to the foreign exchange rate fluctuations and the instability of digital distribution platforms.

Starward Industries is currently focusing all its efforts on one product, the success of which depends to a large extent on the Company's further development. The Management Board is aware of the risks associated with such a model of operation, and at the same time considers it appropriate and the surest way of generating substantial profits from its operations. For its part, the Management Board is making every effort to reduce business risk and increase the probability of success, while exercising due diligence..

## 13.2. Risk factors related to the Company's market environment

### *The risk related to competitors in the gaming industry*

Competition in the computer games market is global. Game developers usually avoid direct competition, as they usually produce games for different audiences, for different publishers, or for various hardware platforms. However, the Company recognizes the risk of a quick concentration of risk in the hypothetical event of a takeover of one or more development studios by a significant producer and a quick start of production of a game similar to the one planned by the Company in order to release it earlier, with a much larger budget. This could potentially limit the demand for the Company's product. In principle, there are competitive computer games on the market similar to the products published by the Company. A large number of competitors have been operating on the market longer and have a greater potential in the production and promotion of games than the Company. There is a very large group of game developers on the market, which use the same distribution channels as the Company. A competitive market requires working to continuously improve product quality, marketing and PR activities, as well as searching for new market niches and game themes that could attract a wide audience. New products are constantly appearing on the market, which means that there is a risk of declining interest in some of the Company's products in favour of competitors' products.

### *The risk related to the competitive environment*

The company operates in a highly competitive environment and is under pressure from:

- suppliers, who are talented game developers: programmers, graphic designers, designers, etc., who regularly receive interesting job offers from competitive studios locally and abroad,
- recipients, understood as end customers who – beyond premiere time slots – tend to generally buy games on sales,
- new market players: new game producers appear all the time, supported both by VC funds and benefiting from various subsidies,
- substitutes products such as other games, games for other platforms, and products from other branches of entertainment.

In order to find its own place on the market that could be held in the long term, the Company focuses on unique values that it has built into its business and product strategy:

- creating virtual worlds that go beyond a single product and are based on compelling, engaging gameplay experiences,
- high intellectual value embedded in culture, which in the case of the first game is the presentation of an original, author's vision based on an exclusive license for a literary work of a recognizable writer - Stanisław Lem.

To the best of our knowledge, there is no other game with a similar profile, i.e. based on single-player gameplay, with a strong storyline,



set on an alien planet and using retro-futuristic graphics, but things may change.

### ***The risk related to the gaming market boom***

The global gaming market is characterized by high growth dynamics. This comes from technological development, macroeconomic factors as well as the global popularization of games as a form of spending leisure time. On the other hand, it is burdened with a high risk of volatility and unpredictability, and it cannot be ruled out that the trend will slow down, and the industry itself will develop slower than it is now, or even collapse. The mitigating factor of the risk is the geographical diversification of the Company's product distribution. As a result, the occurrence of unfavourable local or regional phenomena may only have an insignificant impact on the Company's performance. The risk is further limited by our position on the market. Our customers see our products as relatively low-cost compared to more complex, more expensive forms of entertainment. As a result, the economic downturn may have a smaller impact on the sale of games in the mid-price segment than the average across the entertainment market. It should be remembered that while the Company has no control over these factors, they may adversely affect sales and consequently the Company's financial performance.

### ***Risk related to the structure of revenues***

The company will generate revenue mostly from the sale of digital copies of the first game, and in the future, of subsequent games, as it tries to maintain a balance between the best possible sales result of the first game and reaching the widest possible audience. The company will maximize the product life cycle by releasing game

add-ons (DLC) and by applying a reasonable discount and promotion policy after the release period.

The Company's revenues will be closely tied to the success of the first game, with no possibility of compensation with any other sources. This may also mean that for the purpose of the production of the next game, the Company will have to obtain additional, external financing. Due to the specific nature of digital distribution, the direct source of the Company's revenues will be entities managing game sales platforms on individual markets and hardware platforms. Revenues from a very large number of end users will go to the Company through a small number of platform operators, which means that revenues from a single recipient may account for more than 10% of sales in a given period. The loss of one of such recipients may result in a significant short-term income loss that is hard to replace from other sources. The situations described in this section may have a significant adverse impact on the development prospects, performance and the financial condition of the Company.

### ***Risk related to suppliers of technologies used in the production of games***

The possibility of using a given technology depends on having a license from its creators (usually licenses are obtained for a specific product or series of products). In addition to the need for monitoring market changes, following trends and the changing demand in the selection of technologies, there is a risk of negotiation difficulties or technical problems related to the flaws of specific solutions that cannot be discovered in the early stages of game production. Risk is minimized by using in the game production process the most tried and tested solutions available on the market in the form of flexible engines such as Unreal Engine (Epic Games game engine). The use of standardized engines also allows for rational management of the developed assets and mechanics and for transferring them between

projects. As a result, the projects are relatively easy to localize on new platforms. However, there is the risk of having to regularly update the engine and make corrections to the finished product.

### ***Ryzyko związane z uzależnieniem dystrybucji produktów Spółki od kilku zamkniętych platform***

The company will distribute its products mainly in digital form. As a result, the Company will be able to obtain a faster return on production outlays, without incurring marginal distribution costs other than broker's commissions. It will also use leading sales outlets for key platforms:

- personal computers (Steam, Epic Store, GOG),
- Microsoft Xbox (Microsoft Store),
- Sony PlayStation (Playstation Store),
- Nintendo Switch (Nintendo Game Store).

Each of these sales outlets has in theory the right to refuse to distribute any named games without justification. If this happened, the Company's product sales would take a dive, with the financial result severely affected. In practice, the most common reasons for refusing distribution are copyright infringement, controversial content, or grossly low quality of the product. The Management Board believes that all of these risk factors are negligible and is convinced that we will provide products of very high quality. Also, it will independently ensure that the content and form of the game are in line with the rules, regulations and established practice of each platform.

### ***The risk related to the change in the distribution and sale model of games***

The company addresses its video game offer to audiences all over the world. Computer games are increasingly sold through electronic distribution channels, but many customers still prefer to visit a store and have a boxed copy of the game. In the first case, producers of game consoles force sales through a specific authorized digital distributors (e.g. PlayStation Network for games dedicated to PlayStation or Xbox Live for console games from Microsoft). On the other hand, in the second option, additional expenditure on the release and storage of physical game media is necessary.

Until the release of the Company's first game, there may be a significant change in the key game distribution channels mentioned above. This may be related to two known trends at the moment:

- introducing a subscription model - recipients do not pay for specific games, but for access to a multi-game platform.
- streaming of games - recipients do not install games on their devices, these are run on external servers, and only the image is sent to the recipients.

It is difficult to predict exactly what form new sales models will take, when they will gain a significant share in the market, what role they will play in relation to the currently known models and sales channels, what conditions they will entail for game producers and what additional financial outlays they will require in order to adapt products accordingly at the time of the Company's game release. The risk cannot be ruled out that the distribution channel chosen by the Company for a given game will turn out to be less effective than planned, or that its use will be associated with higher costs or higher expenditure on promotion than initially assumed.

In each of the described variants, there is a risk that the cash flow directed to the Company will decrease. Over time, other potentially unfavourable trends may also emerge. The company is not able to

estimate the likelihood of their occurrence, nor how it might affect financial performance. Nevertheless, having highly rated, well-known products based on recognized IP, the Company will have the bargaining power to help reduce this risk.

### ***Risk related to game viewing***

The company notices an emerging trend in game consumption of watching gameplay online on YouTube or Twitch. This is especially true for single-player role-playing games, such as the Company's first game. There is a risk that the Company's game will be viewed in this way, which may result in the end user deciding not to purchase it in the end, in this way reducing sales of Company product.

In order to mitigate the risk, from the very beginning of work on the game, the Company designs a non-linear, individualized plot structure. When watching a one-time playthrough of the game, it will be clearly visible that the recipient loses some of the content, i.e. the story and adventure. There is therefore a chance that the popularity of the game on video services will translate into increased sales from users looking for non-linear gameplay.

### ***Risk related to illegal distribution***

Games are products that are often distributed illegally without the consent and knowledge of the producer and publisher. Illegal distribution reduces the revenues of authorized distributors and game producers. As opposed to traditional distribution channels, electronic channels through which games are distributed to individual hardware platforms have appropriate safeguards applied by console producers. Illegal distribution of the Company's products may result in a lower level of the Company's sales revenues, which

will consequently bring worse-than-expected financial results. In order to reduce the risk of illegal distribution, the Company may, in particular, take the following actions:

- work solely or mainly with digital platforms that hinder the duplication of the purchased copy,
- send frequent automatic updates to legal buyers,
- hire a professional anti-piracy company to protect products by monitoring the Internet and removing illegal copies,
- embed a monitoring mechanism to estimate the scale of illegal distribution
- build close social media relations with fans of the products to create a reciprocity effect.

Additionally, as part of its marketing strategy, the Company intends to monitor the pirate sphere of the Internet and develop mechanisms converting potential users of illegal copies into legal purchasers through – for example – special discounts.

### ***The risk of failure of the Company's development strategy***

There is a risk that as a result of factors beyond the Company's control, such as the emergence of competitors, failure to meet customer preferences or failure by contractors to meet their contractual obligations, difficulties may arise in executing the adopted strategy. The company operates in a highly volatile and unpredictable market. However, the Company may find it difficult or even impossible to achieve its goals and development strategy due to factors beyond its control, especially ones of a legal, economic or social nature. It cannot be ruled out that as a result of changes in the external environment, the Company will have to adjust or alter its goals and development strategy. A similar situation may take place if the costs of implementing the development strategy exceed the planned expenditures, e.g. due to the need to hire additional employees, a change in the shape or scope of the planned

production, economic transformations leading to a significant increase in operating costs, or failures and unforeseen events resulting in the need for new devices.

### ***The risk of the game's failure to achieve market success***

The computer games market is characterized by limited predictability. Due to the short time horizon remaining until the release of the Company's first game and the related uncertainty as to its final quality and potential interest from players, there is a risk that the game will fail to thrive on the market for reasons that the Company cannot predict. Such a situation may adversely affect the financial result of the Company. This risk is inherent in the current operations of the Company.

### ***The risk of potential failures of IT resources and data loss***

The company's activity is based on the functioning of complex IT systems connected to the Internet. As a result of failures or errors in the technical infrastructure, production interruptions may occur, which may disrupt the Company's current operations. There is also a risk of data loss or theft or leakage.

In order to reduce this risk, the Company protects project data in an automated backup process inside the studio and on external servers in the pCloud service with the highest level of security, which has so far been 100% effective in data protection and archiving. In addition, the Company takes care to ensure the proper maintenance and modernization of IT systems. New updates and technological solutions improving the operation of servers and systems are monitored and introduced on an ongoing basis.

### ***Risk related to the loss of management and key associates***

The success of the Company depends to a large extent on the knowledge, experience and level of motivation of the team. The company has entered into cooperation with a group of game developers with many years of experience and considerable achievements. Their skills and knowledge cover the key areas necessary to implement the Company's plans: technological knowledge, skills in designing mechanics, developing the plot layer, directing scenes and character animations, creating three-dimensional models of the environment and objects, visual design, production management. The Company does not exclude the possibility of voluntary departure of current associates or, in justified cases, termination of cooperation on the Company's initiative. Due to the nature of the gaming industry, which is characterized by a shortage of high-quality specialists, finding other collaborators may be time-consuming. The loss of any of the key employees may be associated with production delays, a reduction in the quality of the game or an increase in production costs, and as a consequence may have an impact on the planned release of the game. The risk-limiting factor is the fact that all key persons are shareholders of the Company. Future employees with key roles will be included in the incentive programme. An additional element limiting the risk is the high prestige of working with the Company's products, as well as the creative freedom associated with working in a small team and the opportunity for development.

### ***The risk related to the possible deterioration of the image of the Company***

The Company's image is strongly influenced by the opinions of users, mainly those published through specialized game review websites. The evaluation is most often focused on the quality of the game, availability on a given platform or device, availability at points of sale or the Internet and, above all, price. A good brand image among players translates into correspondingly higher revenues from the sale of products. Placing unattractive products on the market that do not meet the tastes and expectations of players may lead to unfavourable reviews, opinions and comments to the detriment of the Company's overall image. The loss of player trust may result in a decline in the market position and deterioration of financial results, and in the future fuel the increase in expenditure on the promotion of new products in order to rebuild trust among users and minimize the chances of such negative events.

### ***The risk related to the infringement of intellectual property rights***

In connection with the activities conducted by the Company, there is a risk that third parties may possess certain intellectual property rights to solutions used by the Company. In its activities, the company aims to avoid a situation in which it would in any way infringe third party intellectual property rights. However, it cannot be ruled out that third parties may claim a breach of their intellectual rights to the games, no matter if such allegations are true. In the event of unfair third-party charges of intellectual property infringement, the Company will consider litigation. There is a risk that a potential dispute might result in a court ruling that requires the Company to pay penalties and damages to third parties. This would harm both the Company's image and its financial situation.

Under the applicable regulations, an effective transfer of copyright requires that all fields of exploitations are enumerated, as a transfer 'on all fields of exploitation' is barred. In the context of the rapid progress of technology and the emergence of new fields of exploitation, there is a risk that the Company will use the work in fields of exploitation beyond those specified in the contract. This may result in the need to pay additional remuneration to the authors.

### ***Risk related to the civil law contracts concluded by the Company in the context of copyright***

By establishing cooperation with individual employees, the Company concludes mainly civil law contracts, i.e. contracts for the provision of services and contracts for specific work. Agreements concluded by the Company contain appropriate clauses concerning not only the method of operation, but also transfer of proprietary copyrights to the works performed for the Company, or provisions enforcing confidentiality with regard to all information made available to the contractor and not made public by the Company. The Company's intention is to have copyrights to all produced games in every aspect, which makes the Company independent of development teams, while at the same time building the internal value of the enterprise. At the same time, having copyright gives more leeway in project management.

Company monitors the emerging fields of exploitation, making efforts to ensure that the contracts performed cover all areas of key importance for the Company.

***Risks associated with the SARS-CoV-2 virus pandemic or other epidemics***

The Company recognizes that due to the worldwide pandemic of the SARS-CoV-2 virus (causing the COVID-19 disease), there is a risk that it is difficult for both investors and the Company to make precise business assumptions, as the duration of such a risk is unpredictable. Therefore, the short and long-term effects of the SARS-CoV-2 virus pandemic, its impact on the production process, game marketing and consumer preferences, or the scope of funds allocated globally by consumers for entertainment, including video games, are also unclear. Nevertheless, due to the fact that the Company has introduced appropriate protective measures and has not yet identified any significant obstacles to functioning in connection with the pandemic and as the pandemic has had no impact on the video games market, the Company considers the risk to be minor.

***Risks associated with Russia's war against Ukraine***

Russia's invasion of Ukraine has created multiple risks. The Russian invasion has a negative impact on the global economic and political situation on a large scale, among other things due to the mass migration of refugees from the territory of Ukraine to Poland, the destruction of Ukraine, its infrastructure and economy, the threat of the war spreading to other countries, the fact that the war is taking place in the immediate neighborhood of Poland, and also due to the fact that the introduction of sanctions against Russia may have a negative impact on the Russian economy as well as the economy of other countries, which previously had some trade relations with

Russia (e.g. limitation of oil supply so far has caused a significant increase in fuel prices).

At present, it is difficult to estimate the final impact of the war on the Issuer's operations, which also depends to a large extent on the further development of the hostilities. At present, however, it can be pointed out that it may be visible with respect to the Issuer's operating costs due to further intensification of the general price increase, including rising fuel prices. With respect to future sales of the game, the Company anticipates that Russian users would not be the main customers of the video game produced by the Company, but their potential lack may be noticeable. Due to the sanctions in place, it is possible that the game will not be sold in Russia or its sales will be limited there. The Company does not employ any Ukrainian workers. However, the war in Ukraine may have an adverse effect on other aspects of the Issuer's operations, including sales revenue, as well as an adverse effect on the development prospects and financial performance of the Company, and may also affect other key factors and risks identified in this report. In the event of an escalation of the conflict, the risks are likely to increase, including the retreat of consumers from making entertainment-related purchases, including computer games, to the consumption of necessities. As of the date of this report, the Issuer does not yet believe it is possible to make a precise assessment of the impact of the war on the Company's operations.

### 13.3. Financial risk factors

#### ***Liquidity risk***

As of the date of this report, the Company does not generate any sales revenues and does not receive any other cash inflows from operating activities. The appearance of the first sales revenues depends on the commencement of sales of the Company's first game entitled "*The Invincible*." Until then, the Company's activities focused on the release of the game will only generate costs, which theoretically, in the event of a significant postponement of the release date of "*The Invincible*", could translate into difficulties in the current settlement of liabilities. It should be emphasized that as on 31 December 2020, the Company had cash in the amount of PLN 3,687,957.39, which would satisfy the Company's current cash needs at least until the sale of the first game.

Nevertheless, it should be emphasized that a delay in the implementation of the planned premiere may result in a shift in sales revenues and at the same time require additional, often unforeseen costs, which may result in the loss of financial liquidity.

#### ***Risk of foreign exchange rate volatility***

The company's activity will be export-oriented. The Company incurs its operating costs mostly in PLN, while the Management Board expects the vast majority of its revenues to be in USD and EUR. Investors should take into account the fact that the Company does not use hedging against currency risk. The Polish zloty will remain the basic and reporting currency. The Company intends to reduce the foreign exchange risk by applying natural hedging adjusted to the plan of financial flows. For this reason, the Company's results will be exposed to exchange rate fluctuations. This risk applies in particular to the PLN/USD, EUR exchange rate.

Investors should take into consideration the fact that the Company does not use instruments to hedge against currency risk.

#### 14. Corporate governance statement

The Management Board declares that the Company applies most of the corporate governance rules contained in the Appendix to the Resolution of the Management Board of the Warsaw Stock Exchange No. 293/2010 of 31 March 2010 on amending the document “Best Practices of NewConnect Listed Companies”, a detailed list of which has been indicated in the document which, in accordance with § 5 sec. 6.3 of Appendix 3 to the Alternative Trading System Regulations, forms part of the Company’s annual report for 2021.

Kraków, 31 March 2022



