



STARWARD INDUSTRIES

ENGLISH TRANSLATION OF THE MANAGEMENT BOARD REPORT FOR 2022

Starward Industries Spółka Akcyjna

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1. Basic data

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

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

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

The duration of the Company is unlimited.

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 of date of December 31, 2022 and as at the date of this report, the composition of the Management Board was as follows:

- **Marek Markuszewski** - President of the Management Board
- **Maciej Dobrowolski** - Member of the Management Board
- **Michał Pietrzkiwicz** - Member of the Management Board

As of date of December 31, 2022 and as at the date of this report, the composition of the Supervisory Board was as follows:

Wojciech Weiss - Chairman of the Supervisory Board

Michał Siennicki - Deputy Chairman of the Supervisory Board, representative of the individual investors

Marcin Górecki - Member of the Supervisory Board

Marta Adamska - Member of the Supervisory Board

Bernard Gudowski - Member of the Supervisory Board

During the fiscal year, on March 31, 2022, effective on the same date, Mariusz Antkiewicz and Daniel Betke resigned from their positions as Board Members. The reason for their resignation was the fact that the production of “The Invincible” game had entered the final stage of development, and thus they wanted to fully concentrate on fulfilling their duties related to their roles as Gameplay Designer and Technical Director, respectively.

Following the above resignations, on March 31, 2022, the Company's Supervisory Board, in order to supplement the composition of the Management Board and diversify its competencies, adopted a resolution on the appointment of Maciej Dobrowolski, who previously served as a manager responsible for marketing at Starward

Industries, to serve as a member of the Management Board. The appointment took effect upon adoption of the resolution.

On September 30, 2022 the Company received resignations from Dawid Sękowski and Michał Pietrzkiwicz (from their respective positions of Member of the Management Board and Member of the Supervisory Board). Both resignations became effective upon their receipt by the Company.

As the reason for his resignation from the Company's Management Board, Dawid Sękowski cited the completion of his objectives, as well as personal reasons.

Also on September 30, 2022, the remaining members of the Supervisory Board of the Company, following the resignation of Michał Pietrzkiwicz, in order for the Supervisory Board to regain the required minimum number of members, using the powers provided for in the Articles of Association of the Company, by way of co-option, appointed Bernard Gudowski to serve as a Member of the Supervisory Board with immediate effect.

Following the election of the new Member of the Supervisory Board referred to above, the Supervisory Board, in its new composition, adopted a resolution to appoint Michał Pietrzkiwicz as a Member of the Management Board of Starward Industries.

Bernard Gudowski is a director, head of the post-merger integration and carve-out team for the M&A activities of SIX Group, a Swiss operator of the Zurich and Madrid stock exchanges. He also co-founded two technology startups and is an active investor in the video games and biotechnology industries.

3. Description of business

Starward Industries is an independent developer of games from the so-called **AA+** segment, designed for personal computers and PlayStation, Xbox and Nintendo Switch game consoles, created by a team of people with many years of experience in companies such as CD Projekt RED, Reality Pump or Techland, led by Marek Markuszewski - President of the Management Board and author of the studio concept.

Marek Markuszewski gained experience in the Kraków branch of CD Projekt RED, which he co-founded. After leaving the position of Senior Producer, he devoted himself to a new project which formed the basis for Starward Industries S.A. Over a year he gained talented and experienced game developers for cooperation, acquired a license to adapt an outstanding Sci-Fi novel and created a detailed business plan for the undertaking. In June 2018, he met with a group of individual investors who provided the first round of financing and started to work together to develop the studio.

The result is a mature Company structure and a long-term business and financial plan. The work culminated in the establishment of a joint stock Company run under the current name on **September 10, 2018** in Kraków. It was registered with the National Court Register on September 27, 2019, and from October of the same year it started to operate with all positions filled (core team). At the beginning of 2020, Starward Industries began preparations for its debut on the NewConnect market, which culminated in the start of trading on August 19, 2020. 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

THE INVINCIBLE

A videogame by Starward Industries



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 25 January 2028. 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. It does not reproduce any patterns created to date around the writer's work, but creates an original vision of the message. The Board is aware that the goal it set 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 effort on the professional development of team members, keeping up-to-date with new emerging technologies and trends.

4. Significant events in the completed financial year

In January 2022:

- The production team began working on the Beta version of the game. As part of the development of this version, the following work began:
 - parallel testing of the game on PCs and consoles aimed at preparing the 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),
 - recording of the English voice-overs,
 - Motion Capture sessions for large animation scenes.

The results of this stage, in the form of, among others, a playable version of the game in a quality close to that of the final version.

- On **January 27, 2022**, an update appeared on <https://invinciblethegame.com/> introducing, among other things, a new scene from the game's world.
- On **January 28, 2022**, [the product page of "The Invincible"](#) 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.

In February 2022:

- On **February 3, 2022**, [Kotaku](#), a website that publishes news and opinions on video games, published an interview with Wojciech Ostrycharz, Art Director at Starward Industries.

- On **February 14, 2022**, the Management Board of the Company, in accordance with the schedule of publication of periodic reports in 2022, handed over to the shareholders the Quarterly Report for the fourth quarter 2021.
- Two interviews with Marek Markuszewski, president of the management board of Starward Industries, were published:
 - on **February 15, 2022**, on the [The Escapist](#), website that provides news for entertainment enthusiasts,
 - on **February 23, 2022**, on the [News Nine](#), a website news platform from India that is a digital version of TV9 news.

In March 2022:

- On **March 15, 2022**, the production team finished working on the first phase of the Beta version of the game (MS-18). The results of this work were made available by the Company 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 - to gather feedback and revise distribution options and to bolster the game's visibility in shops,
 - Selected news media - for silent reviews.
- On **March 31, 2022**, the Management Board of the Company, in accordance with the schedule of publication of periodic

reports in 2022, handed over to the shareholders the Annual Report for 2021.

- A Community Manager joined the Company's marketing team.

In April 2022:

- On **April 11, 2022**, Dawid Sękowski and Maciej Dobrowolski - members of the Company's Management Board - took part in an investor chat organized as part of the 8th edition of the Gaming na Giełdzie event. Topics discussed during the meeting included recent events that took place at the Company, changes in the composition of the Management Board and plans for the near future. A transcript of the meeting can be viewed on [StockWatch](#).
- On **April 21, 2022**, a 16-page article on “The Invincible” game was published in the print magazine EDGE. EDGE is one of the most prestigious gaming magazines in the world. “The Invincible” is the fourth Polish game honored with finding itself on the cover of the magazine.
- Based on the results of tests conducted by the Company's development team and by external companies, game optimization work has been done. They will allow increasing overall efficiency and reducing recommended hardware requirements.

In May 2022:

- On **May 7, 2022**, the official game server on Discord was launched.

- On **May 13, 2022**, the Management Board of the Company, in accordance with the schedule of publication of periodic reports in 2022, handed over to the shareholders the Quarterly Report for the first quarter 2022.
- A Narrative Designer/Writer joined the team.

In June 2022:

- On **June 12, 2022**, a cooperation agreement was signed between the Company and 11 bit studios S.A., under which:
 - 11 bit studios S.A. has become the publisher of “The Invincible”, most of the profits from the game will be retained by Starward Industries, and the publisher's reimbursement refers to expenses incurred in the production and release of the game, while the investment in the purchase of Starward Industries' shares is not taken into account in calculating the publisher's total costs under profit sharing (RevShare),
 - the Company agreed to convene the General Meeting to vote on a capital increase of 75,000 Starward Industries shares, through the issuance of new shares with exclusion of pre-emptive rights for the Company's existing shareholders, and to offer the newly issued shares at a price of PLN 79 per share to one entity, i.e. - 11 bit studios S.A., for a total amount of PLN 5.925.000,
 - Marek Markuszewski, president of the management board of Starward Industries, has agreed to sell 11 bit studios S.A. 25.000 of the Company's shares at a price of PLN 10 per share., to which the Supervisory Board

gave its approval. A lock-up agreement remains in effect for the remaining 355,001 shares owned by the Company's president, with a restriction on the sale of shares until the end of six months from the release date of “The Invincible” game,

- 11 bit studios S.A. has agreed to acquire 75,000 shares in the Company at a price of PLN 79 each, and to purchase 25,000 shares from Marek Markuszewski at a price of PLN 10 per share. Upon completion of the investment, 11 bit studios will hold more than 5% of the Company's share capital,
- The release date has been set for 2023. The exact date will be decided by the publisher, i.e. 11 bit studios S.A. Due to the change, the budget of the game "The Invincible" has been updated.

- On **June 12, 2022**, during the [PC Gaming Show](#) event, the partnership with 11 bit studios S.A. was announced and a 5-minute trailer showing gameplay of “The Invincible” (Gameplay Showcase Trailer) was presented for the first time.
- On **June 29, 2022**, the Company completed casting actors to conduct recordings of all soundtracks (voice overs) in English language for all characters in “The Invincible” game.

In July 2022:

- On **July 13, 2022**, the extraordinary shareholders meeting of the Company adopted a resolution to increase the share capital by PLN 9.750 through the issue of 75.000 J-series ordinary bearer shares with a nominal value of PLN 0,13 each and to deprive existing shareholders of the pre-emptive right

to the new issue and to register the newly issued shares with the Central Securities Depository of Poland and apply for their introduction to trading in the NewConnect Alternative Trading System operated by the Warsaw Stock Exchange. The offer to acquire J-series shares was addressed to 11 bit studios S.A. with its registered office in Warsaw, with the share issuing price set at PLN 79 per share.

- On **July 15, 2022**, the publisher signed off on another milestone (MS-19), which consisted of Beta quality production of a large section of the game entitled "City". The acceptance also completed the commissioning phase of the collaborative environment between the Starward Industries development team and the publisher. The said environment includes:
 - the development of file transfer standards and documentation,
 - introduction of the publisher's testing team (Jira),
 - the launch of communication channels (Slack).
- On **July 27, 2022**, the Management Board of the Company, in accordance with the schedule of publication of periodic reports in 2022, handed over to the shareholders the Quarterly Report for the second quarter 2022.
- On **July 29, 2022**, the Company entered into a share subscription agreement with 11 bit studios S.A., and subsequently received the amount of PLN 5.925.000,00 from the new shareholder as payment for the shares within the timeframe as stated in ESPI current report No. 8/2022 (of the same date).

In August 2022:

- On **August 4, 2022**, at the time Members of the Company's Management Board participated in a video presentation and investor chat organized by StockWatch.pl. The meeting with investors was focused on recent developments in the Company, including the establishment of a partnership with the publisher and plans for the near future. The meeting can be viewed on [YouTube](#).

In September 2022:

- On **September 6, 2022**, the Company participated in Feardemic's Fear Fest 2022: Black Summer Edition, an event centered around thrillers and horror games and a celebration of horror as a genre. As part of the festival's demonstration via a dedicated [YouTube channel](#), viewers could watch a gameplay trailer of "The Invincible." In addition, the Company's game was promoted on the [event website](#) and on social media.
- On **September 12, 2022**, in celebration of the 101st birthday of Stanislaw Lem, author of the novel "The Invincible", the Company shared with fans (via its social media accounts, incl. [Facebook account](#)), a short animation inspired by the writer's work.
- On **September 20, 2022**, the publisher signed off on another milestone (MS-20) with four locations of the game with the working titles: "Camp," "Excavation," "Landing" and "Spaceship." This was another milestone signed off on and paid for by the publisher.

- A third Environment Artist joined the team.

In October 2022:

- On **October 6, 2022**, the Company's J-series shares, subscribed for by 11 bit studios S.A., were registered by the District Court for Krakow-Centre in Krakow, XI Economic Department of the National Court Register.
- **October 7- 9, 2022**, representatives of the Company and the publisher took part in the 16th edition of Poznań Game Arena, the largest video game and multimedia entertainment fair in Poland and Central and Eastern Europe. The stand, where gamers, as the first in the world, could play a 40-minute demo of "The Invincible" and talk with Team Members was very popular.

The company and its publisher received the PGA Award 2022 for Best Indie Game of the fair, as well as the ACANTHUS AUREUS distinction, awarded by the MTP group for the stand design. In addition to the marketing value, participation in the fair allowed the Company to gather valuable feedback from more than 300 players.

The demo, which editors from, among others, Edge Magazine and Game Informer had a chance to play, was sent to leading industry media outlets. Journalists from portals such as IGN, Game Rant, PCGamesN, VG247 and GameSkinny, to name a few, have given it very positive reviews, and a preview has appeared on [IGN's YouTube](#) channel, which has so far been viewed nearly 700,000 times.

In November 2022:

- On **November 10, 2022**, the Management Board of the Company, in accordance with the schedule for the publication of periodic reports in 2022, delivered to shareholders the Quarterly Report for the third quarter of 2022.
- On **November 14, 2022**, the Members of the Company's Management Board took part in a video presentation and investor chat organized by the StockWatch.pl portal. The meeting with investors was devoted to recent developments in the company, including the presentation of quarterly financial results. A transcript of the meeting can be viewed on YouTube.
- On **November 22, 2022**, as part of the Golden Joystick Awards 2022 event, the Company and the publisher released the fourth promotional material for the game - "[Life on Regis III | The Invincible Documentary](#)". It shows glimpses of various environments from the game (including previously unreleased ones), and introduces the scientific-existential narrative and emotional atmosphere specific to "The Invincible" (the desire to know, the belief in science, the fear of the unknown and the sense of failure).

In December 2022:

- On **December 1, 2022**, the publisher signed off on another milestone (MS-21), which consisted of Beta quality production of a large section of the game entitled "Base". In addition,

console ports of the aforementioned section of the game were delivered.

- On **December 13, 2022**, the Management Board of the Warsaw Stock Exchange adopted a resolution setting December 16, 2022 as the date of the first listing in the

alternative trading system on the NewConnect market of the series J ordinary bearer shares of Starward Industries S.A.

- A QA Analyst joined Starward's development team.



New recruitments:

In **2022**, there were 4 new people added to the team, thus closing the recruitment planned for this year. People joined the team for the following positions:

- Narrative Designer/Writer,
- Community Manager,
- Environment Artist,
- QA Analyst.

Participation in trade fairs, conferences and other industry events:

- participation in Feardemic's Fear Fest 2022: Black Summer Edition,
- participation in the 16th edition of Poznań Game Arena,
- participation in the 8th edition of the Gaming na Giełdzie conference,
- participation in the 13th edition of the #GPWInnovationDay conference,
- video presentations and participation in investor chats organized by StockWatch.pl.

Participation in events for retail investors:

- participation in the conference "On the way to the WSE" organized by the Strict Minds agency and the StockWatch.pl portal, in which one of the panelists was Michał Pietrzkiwicz, Member of the Management Board of the Company.

5. Significant events after the end of the financial year

In January 2023:

- On **January 5, 2023**, the Company signed an agreement with SSW Pragmatic Solutions Spaczyński, Szczepaniak, Okoń Sp.k. law firm. The purpose of the cooperation is to prepare the documentation necessary to carry out the process of transferring the studio's shares from NewConnect (alternative market) to the main market of the Warsaw Stock Exchange.
- On **January 25, 2023**, the Company entered into an annex to the license agreement with the heir of Stanislaw Lem's works, under which the exclusive right to produce video games based on Stanislaw Lem's novel "The Invincible" was extended until January 25, 2028.

The license, acquired in 2018, allows the production of more than one game in the world of "The Invincible," including downloadable content (DLC) and paid story expansions to "The Invincible".

- On **January 27, 2023**, the publisher signed off on another milestone (MS-22), which included the production of a large part of the game entitled "Condor." In addition, console ports of the aforementioned section of the game were delivered.

In February 2023:

- On **February 17, 2023**, during IGN Fan Fest, we showcased another trailer and revealed the slogan - "Not everything

everywhere is for us", which will promote the game in the coming months.

In March 2023:

- **March 1-2, 2023**, the Management Board members took part in devGAMM 2023. This year, the fair was held in Poland for the first time (in the city of Gdansk). As part of the event, Digital Vikings awards were given in six categories. One of the statuettes - in the category for the Most Anticipated Indie Game of the Year - was awarded to Starward Industries for "The Invincible".

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 license 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.

7. Major achievements in research and development

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

8. Shareholding structure

The table below presents the shareholder structure as of the date of this report, indicating in particular the shareholders holding at least 5% of the votes at the General Meeting and the members of the Management Board and Supervisory Board.

No	Shareholder	No. of shares	% of shares	No. of shares	% of shares
1	Marek Markuszewski*	355 002	18,20%	355 002	18,20%
2	Kamil Klinowski	130 000	6,66%	130 000	6,66%
3	Marcin Przasnyski	117 236	6,01%	117 236	6,01%
4	11 bit studios S.A.	100 000	5,13%	100 000	5,13%
5	Sebastian Służka	100 000	5,13%	100 000	5,13%
6	Daniel Betke	100 000	5,13%	100 000	5,13%
7	Chiswick Creative Ventures Ltd.	98 240	5,04%	98 240	5,04%
8	Acion Partners Ltd.	27 995	1,43%	27 995	1,43%
9	Wojciech Weiss**	9 456	0,48%	9 456	0,48%
10	Michał Siennicki**	3 200	0,16%	3 200	0,16%
11	Workers and coworkers	255 426	13,09%	255 426	13,09%
12	Other shareholders <5%	654 440	33,54%	654 440	33,54%
	TOTAL	1 950 995	100,00%	1 950 995	100,00%

* Management Board / ** Supervisory Board

Data on the shareholder structure of Starward Industries is presented to the best of the Company's knowledge, in particular on the basis of the number of shares registered for the Extraordinary General Meeting of July 13, 2022 and the information indicated in ESPI Report No. 8/2022 of July 29, 2022, as well as ESPI Reports No. 9/2022 and 10/2022 of August 3, 2022, and may not include transactions that did not give rise to reporting obligations. The table presents data after the company's share capital increase and includes 75,000 series J shares subscribed by 11 bit studios S.A.

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, to a significant extent, party to share lock-up agreements. A total of 793,001 shares of the Company are subject to lock-up (part of A-series shares for which the lock-up did not expire on August 19, 2021 and February 19, 2022 and all B-series and F-series shares), representing 40.65% in the share capital and the total number of votes at the General Meeting of Shareholders.

10. Current and projected financial situation

As at December 31, 2022, the Company's balance sheet total amounted to PLN 14.854.397,54, incl. equity of PLN 11.350.167,44.

The net loss in the reporting period amounted to PLN 1.857.894,69. The reported result includes deferred income tax and reflects operating expenses related to costs of game development, office equipment and maintenance, subcontracting services, costs related to share issue services and remuneration of employees and associates in the total amount of PLN 4.864.394,05. The change in the inventory balance amounted to PLN 3.013.375,43.

The reported net loss is in line with the Company's budget assumptions and is justified based on the progress of the game's production plan. At the end of the year, the value of the Company's inventory (semi-finished products and work in progress) amounted to PLN 8.145.607,30, which includes the costs of completed development works.

On June 12, 2022, the Company entered into an agreement with 11

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

bit studios S.A. on cooperation in the field of game release and investment in shares of Starward Industries S.A.

Pursuant to the agreement, the distribution of profit due to the parties of the publishing agreement will take place as soon as the total proceeds from the sale of the game cover the expenses incurred by the publisher, arising solely from the provisions of the publishing agreement. The recoup does not apply to the amount contributed to the Company by 11 bit studios S.A. as part of an equity investment by increasing the share capital of Starward Industries through the issuance of series J shares for PLN 5,9 million. The funds raised are used for the development of the first title and the Company.

All funds held are in the Company's current account and term deposit accounts, and these are presented as "Other cash" (deposits up to 3 months) or "Other short-term financial assets" (deposits up to 12 months), depending on the maturity date.

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 growth.

ASSETS (PLN)	As of 31 December 2022	As of 31 December 2021
Fixed assets	<u>366 930,37</u>	<u>209 747,55</u>
Assets	<u>14 487 467,17</u>	<u>8 055 544,05</u>
Inventories	8 150 236,80	5 132 231,87
Short-term receivables	165 056,71	391 458,83
Short-term investments	6 087 496,25	2 463 765,62
Short-term prepayments and accruals	84 677,41	68 087,73
Total	14 854 397,54	8 265 291,60

LIABILITIES (PLN)	As of 31 December 2022	As of 31 December 2021
Equity capital	<u>11 350 167,44</u>	<u>7 283 062,13</u>
Liabilities and provisions for liabilities	<u>3 504 230,10</u>	<u>982 229,47</u>
Provisions for liabilities	812 174,60	594 168,23
Long-term liabilities	0,00	0,00
Current liabilities	492 055,50	388 061,24
Prepayments and deferrals	2 200 000,00	0,00
Total	14 854 397,54	8 265 291,60

11. Own shares, branches, financial instruments

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

12. Employment information

As at the end of 2022, calculated on a full-time basis within the definition of the Labour Code Act, the company employed 2 and 3/4 persons. At the same time, Starward Industries cooperates on a permanent basis with 32 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 favor 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 unfavorable 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.

Risks related to the dependence of the distribution of the Company's products on a limited number of platforms

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 distributor (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 unfavorable 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 narrative single-player 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 products.

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 growth 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 growth 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 growth strategy. A similar situation may take place if the costs of implementing the growth 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 video 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 Cloud 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 reputation of the Company

The Company's reputation 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 unfavorable 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 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 reputation and its financial situation.

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. Under the applicable regulations, an effective transfer of copyright requires that all fields of exploitation 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. 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 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, other than these received based on the publishing agreement for completing production milestones. The appearance of the first sales revenues depends on the commencement of sales of the Company's first game, "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 delay in release of "The Invincible", could result in difficulties in the current settlement of liabilities.

Nevertheless, it should be emphasized that a delay in releasing the game 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. For this reason, the Company's results will be exposed to exchange rate fluctuations. This risk applies in particular to the PLN/USD and PLN/EUR exchange rates. 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 March 31, 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 2022.

March 16, 2023

Kraków

Marek Markuszewski

President of the Board

Maciej Dobrowolski

Member of the Board

Michał Pietrzekiewicz

Member of the Board